Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2019

Directors' Review

In £m 2018/19 prices unless stated otherwise

Introduction

This financial year saw the completion of Network Rail's five-year spending plan. This review will look back over the last year, a year of successfully completing investment projects, overcoming performance challenges, and making plans so that the business can look forward to the next five years with confidence and with renewed determination to play our part in providing the railway our customers need.

The year has seen some mixed results. We have achieved a near record investment in railway enhancements in 2018/19 as the Railway Upgrade Plan enters its final phase.

While the regulatory settlement for this year was difficult, our performance challenges, including the May 2018 timetable issues, have added to this. However, the company remains on a firm financial footing with better than expected receipts from other activities keeping Network Rail within its budget.

Our focus is working ever more closely with our industry partners to turn around train performance and to complete our multi-billion-pound Railway Upgrade Plan.

The record investment in the year saw the completion of many projects, with new infrastructure ready to provide opportunities for new and improved services, less crowded and more frequent services, putting the passenger first. Our key projects for the year have included the Thameslink Programme, the Great North Rail Project, the Edinburgh Glasgow Improvement Programme, Great Western Electrification Programme, Crossrail, and the Waterloo and South West upgrade. Most of these mega-projects are now coming towards an end, with more frequent trains coming into service.

Our efficiencies have faced further challenge this year. The Office of Rail and Road (ORR) outlined, and Network Rail accepted, ambitious targets at the start of Control Period 5 (CP5), which have been built into the determination of charges. Efficiencies have been made (for example through contracting strategies, workbank planning and new technology) but are often offset against cost pressures, including changes to improve workforce safety and decreasing opportunities to carry out works as the network becomes busier. In the year, Network Rail achieved the savings and asset disposals it needed to deliver its investment programme within its budget.

Devolution continues across the business. Our recent plans to put the passenger at the heart of everything we do have created five regional hubs, which will provide local leadership and economies of scale as we continue our path to devolution, allowing us to work more closely with our key stakeholders and drive improved performance, and be more cost-efficient and cost competitive.

In October the ORR set out the next five-year funding plan for the period 2019-2024. This provides funding for Network Rail's plans and sets out the challenging outputs that we have targeted. The key challenges are to achieve much better train performance, and drive significant efficiencies. Providing the journeys the customer and the nation needs, at a price that both can afford.

Directors' Review continued

In £m 2018/19 prices unless stated otherwise

Summary income and expenditure comparison to the PR13 2018/19

	Actual	PR13	Difference
Income			
Grant Income	4,125	4,147	(22)
Fixed Income	1,038	991	47
Variable Income	1,261	1,402	(141)
Other Single Till Income	2,413	1,113	1,300
Opex memorandum account	(14)	0	(14)
Total Income	**8,823**	**7,653**	**1,170**
Operating expenditure			
Network operations	686	415	(271)
Support costs	463	447	(16)
Traction electricity, industry costs and rates	746	834	88
Network maintenance	1,525	1,120	(405)
Schedule 4	335	231	(104)
Schedule 8	319	5	(314)
Total operating expenditure	**4,074**	**3,052**	**(1,022)**
Capital expenditure			
Renewals	3,082	2,537	(545)
PR13 enhancement expenditure	2,964	1,655	(1,309)
Non PR13 enhancement expenditure	200	0	(200)
Total capital expenditure	**6,246**	**4,192**	**(2,054)**
Other expenditure			
Financing costs	2,319	2,290	(29)
Corporation tax (received)/paid	0	3	3
Total other expenditure	**2,319**	**2,293**	**(26)**
Total expenditure	**12,639**	**9,537**	**(3,102)**

Income

Income was £1.2bn higher than the regulator assumed this year. This was mainly due to exceptional asset disposals completed during the year, which are included in 'Other Single Till Income' above in the amount of proceeds from the disposal, less the cost of sale. The largest asset disposal saw the divestment of a large proportion of the commercial property portfolio. This achieved a sales value of over circa £1.4bn. This was a complex deal involving around 5,250 properties primarily let to small and medium-sized businesses.

These gains were partly offset by lower electricity for traction (EC4T) income. Network Rail acquires electricity and passes the costs onto operators, so the reduced income is offset by lower operating costs. Income from financing charges and facility fees were lower. Again, this was offset by savings elsewhere, mainly interest. In addition, freight income was lower than the regulator assumed in the PR13 determination as structural changes and legislative implementation have had a significant impact on the industry.

Directors’ Review continued

In £m 2018/19 prices unless stated otherwise

Operating costs

Operating costs were higher than the regulator expected this year with additional costs across most categories.

Network Operations costs are higher as a result of additional signaller costs arising from a greater control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities.

Support costs are higher as the scale of savings expected by the regulator this year has not been achieved. Over the course of the control period, however, there have been substantial savings well in excess of the regulator’s targets.

Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (which is offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. Network Rail has minimal influence over the costs in this category which are either set by industry-wide organisations (such as ORR and British Transport Police) or by government (such as Business rates).

Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs.

Performance regime

Schedule 4 & 8 performance regime penalties were higher than the regulator assumed. As expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator’s targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable all contributed to this position. There was a particular downturn during the record-breaking long hot summer where the network experienced poor performance in the season when performance is normally at its peak. Generally, asset performance was good, but performance in the year continued to be impacted by slower recovery times from incidents, a knock-on effect of a more congested network. Network Rail has already taken steps to improve performance by increasing the size of maintenance teams to respond more quickly to incidents.

Schedule 4 costs are higher than the determination as higher average costs of possessions have been compounded by higher levels of renewals activity requiring network possessions compared to the regulator’s assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators to book the possessions necessary to undertake renewal and maintenance programmes.

Directors' Review continued

In £m 2018/19 prices unless stated otherwise

Investment in the railway network

The Railway Upgrade Plan has for the last few years been transforming the railway network. We have some of the largest and most complex engineering projects in the world. These mega-projects include the Thameslink Programme, Great Western Electrification, Crossrail, and the Edinburgh Glasgow Improvement Programme. Network Rail has been delivering nearly a quarter of the spend on infrastructure in the UK. This year Network Rail delivered nearly £7bn of railway investment, including £0.6bn of investment paid for directly by third parties which is not included in the table above or relevant to the Regulatory Asset Base. To deliver this level of investment Network Rail relies on a strong supply chain. Network Rail has a long-standing commitment to engage positively and collaboratively with its supply chain, including introducing a fair payment charter.

Enhancements that will increase the capacity of the network have amounted to £3.8bn, including £0.6bn of investment paid for directly by third parties. This follows last year's record in terms of delivery of £4.2bn. We have also invested £3.1bn on renewals this year. This included over £0.9bn of track renewals which delivered over 900km of new track and replaced over 900 switches and crossings. In addition, £0.7bn was spent on signalling renewals, £0.4bn on civils (including around 60,000 square meters of underbridges, and 20,000 square meters of tunnels), £0.3bn on electrification assets, £0.3bn on buildings & property (including around £0.2bn on improving stations for passengers) and £0.5bn on other renewals (including telecoms, IT, plant and equipment, intelligent infrastructure and faster isolations).

In the year, Network Rail hit 124 per cent of its seven key renewal volumes and 91 per cent of its Delivery Plan & Enhancement milestones.

Financing costs

Finance costs for the year of £2.3bn was broadly in line with the regulatory assumption. Higher levels of average debt in the year was largely offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted.

Borrowing

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

The regulatory settlement provides strong security for future income and the Department for Transport (DfT) loan agreement provides a robust platform to refinance and borrow to invest in the railway network. Network Rail operated within the funding envelope established at the time of agreeing the DfT loan facility in the period 2014-2019.

During the year ended 31 March 2019, Network Rail borrowed £6.7bn from the DfT. Part of this new debt was used to pay back existing bonds and maturing DfT borrowing, whilst the remainder was used to invest in the railway infrastructure. As a result, net debt rose to £53.4bn from £50.4bn. In the year Network Rail sold most of its investment property portfolio for circa £1.4bn to reinvest in its core infrastructure investment programme and reduce borrowing requirements.

Directors’ Review continued

In £m 2018/19 prices unless stated otherwise

Summary

Network Rail has delivered the major part of the Railway Upgrade Plan. This has meant delivering the highest level of enhancements to the railway network since Victorian times. These enhancements will improve performance and increase network capacity to assist in meeting the increasing demand for rail travel and benefit our customers for decades to come. To maintain this momentum in the investment programme, Network Rail plans to continue to look for additional funding from third parties and to deliver further cost efficiencies.

The ORR published its final determination for 2019-2024 in October 2018, setting out its decision on what Network Rail should deliver and the funding available to enable a safe, reliable and efficient railway. This was a critical step in the development of our plans for this period. Network Rail is putting in place what it needs for this five-year plan and is in a strong position to deliver. Our plans represent an opportunity to bring about real change, focusing on putting passengers and freight users at the front and centre of what we do. There are challenges ahead, but we will make this funding work hard over the next five years and, through our devolved businesses, deliver a better and more reliable railway.

The Directors’ report and the Regulatory financial statements were approved by the Board of Directors on 7th October 2019.

Signed on behalf of the Board of Directors

Andrew Haines (Director)   Jeremy Westlake (Director)

Statement of Directors' Responsibilities

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

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

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2019 and (save as otherwise provided in Condition 11 or the CP5 Regulatory Accounting Guidelines June 2017) on a consistent basis in respect of each financial year;
- prepare the Regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary Statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
    - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
    - (ii) the Determination Assumptions for the access review periods specified in the CP5 Regulatory Accounting Guidelines June 2017; (and so that where the presentation of an item in the primary Statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary Statement, a Statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the CP5 Regulatory Accounting Guidelines (June 2017) with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial Statements with any corresponding items in annual statutory accounts for the access review periods specified in the CP5 Regulatory Accounting Guidelines June 2017;
- include narrative explaining the material variances from the previous year (where required by CP5 Regulatory Accounting Guidelines June 2017) and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 11, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 3.1 and (where applicable) with Condition 3.2 and, if so requested by the ORR, evidence in support of that confirmation.

In addition, the directors are responsible for selecting suitable accounting policies where these are not directed by CP5 Regulatory Accounting Guidelines (June 2017) and for making judgements and estimates that are reasonable and prudent.

In accordance with the CP5 Regulatory Accounting Guidelines (June 2017) the statutory financial statements are submitted to the ORR along with these Regulatory financial statements to enable a comparison. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion and are submitted for information only.

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

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

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2019 which comprise the following statements (separately for GB, England and Wales, and Scotland and the Routes except where stated otherwise below):

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

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

This report is made, on terms that have been agreed, solely to the company and the Regulator in order to meet the requirements of the Regulatory Licence. My audit work has been undertaken so that we might state to the company and the Regulator those matters that I have agreed to state to them in my report, in order (a) to assist the Company to [meet its obligation under the Regulatory Licence to procure such a report] and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the company and the Regulator, for my audit work, for this report or for the opinions I have formed.

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

Respective responsibilities of the Directors and Auditor

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

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

Scope of the audit of the Regulatory Financial Statements

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

I have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines do not give specific guidance on the accounting policies to be followed, my audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Financial Statements is determined by the Regulator, I did not evaluate the overall adequacy of the presentation of the information, which would have been required if I were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

In my opinion the Regulatory Financial Statements, defined above:

- fairly present in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2019 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 11 of the Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies.

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

Emphasis of matter - basis of preparation

Without modifying my opinion, I draw attention to the fact that the Regulatory Statements have been prepared in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines issued by the Regulator, and the accounting policies set out in the statement of accounting policies. The nature, form and content of Regulatory Financial Statements is determined by the Regulator. It is not appropriate for me to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

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

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

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

Other matters

My opinion on the Regulatory Financial Statements is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2019, which are prepared for a different purpose. My audit report in relation to the statutory financial statements of the Company (my "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My Statutory audit work was undertaken so that we might state to the Company's members those matters I am required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Matthew Kay (Senior Statutory Auditor)

8th October 2019

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

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

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2019, which comprise:

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

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 of the Network Licence. As stated in Clause 2.28 of the Regulatory Accounting Guidelines (RAGs) dated June 2017, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory accounts. This complements the work of the auditors.

Work completed – basis of opinion

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

We have performed where possible, compliance tests to confirm the adequacy of accounting controls and procedures and detailed substantive testing to confirm the accuracy of accounting entries.

Opinion

Based on our review and audit of information and evidence provided in respect of the statements within the Regulatory Accounts, we confirm that in our opinion the statements that we have reviewed (listed in the introduction above) have been prepared in accordance with the Regulatory Accounting Guidelines and are consistent with the underlying financial statements.

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

Yours faithfully.

Mark Rudman

Named Independent Reporter

Ove Arup & Partners Ltd

7th October 2019

Accounting policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence dated 31 March 1994, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 11 of the Licence and the Statements must be prepared in accordance with detailed CP5 Regulatory Accounting Guidelines issued by ORR under Condition 11 in June 2017.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP5 Regulatory Accounting Guidelines (“RAGs”) issued by the ORR in June 2017. These are consistent with those detailed in the Company’s statutory financial statements for the year ended 31 March 2019 which were approved by the Directors on 15 July 2019 with the following notable exceptions:

Inflation

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

Regulatory Asset Base

The Regulatory Asset Base (RAB) has been calculated in accordance with the RAGs and the RAB roll forward policy set out therein. As in previous years this requires management to make their best assessment of efficiency savings achieved along with other judgements around performance. The judgements reached on efficiency savings continue to be discussed with the Regulator and the reporter and are therefore subject to amendments in future years. 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 by the Regulator undertaken as part of their review procedures after the conclusion of control period 5.

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life (currently 40 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2013. The opening RAB at 1 April 2018 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Debt

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

Capitalised interest

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

Accounting policies continued

Pensions

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

Turnover

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

Basis of disaggregation

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

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

Operational Routes

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

(a) directly managed - income and expenditure which is managed by the local route leadership team. This is assigned directly to each route. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual routes. All of these costs/ revenues are included in the route income and expenditure reported in the regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the route-managed works delivery team

(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. In these circumstances, costs have to be attributed to routes using an appropriate driver. The driver represents 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 is 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Income							
Grant Income	4,125	4,147	(22)	22,742	22,696	46	4,623
Fixed Income	1,038	991	47	2,884	2,758	126	536
Variable Income	1,261	1,402	(141)	6,025	6,373	(348)	1,174
Other Single Till Income	2,413	1,113	1,300	6,142	4,994	1,148	1,027
Opex memorandum account	(14)	-	(14)	6	-	6	4
Total Income	**8,823**	**7,653**	**1,170**	**37,799**	**36,821**	**978**	**7,364**
Operating expenditure							
Network operations	686	415	(271)	3,025	2,280	(745)	615
Support costs	463	447	(16)	2,126	2,455	329	408
Traction electricity, industry costs and rates	746	834	88	3,299	3,542	243	671
Network maintenance	1,525	1,120	(405)	7,043	5,986	(1,057)	1,424
Schedule 4	335	231	(104)	1,297	1,203	(94)	227
Schedule 8	319	5	(314)	983	23	(960)	226
Total operating expenditure	**4,074**	**3,052**	**(1,022)**	**17,773**	**15,489**	**(2,284)**	**3,571**
Capital expenditure							
Renewals	3,082	2,537	(545)	15,181	14,030	(1,151)	2,490
PR13 enhancement expenditure	2,964	1,655	(1,309)	16,180	16,182	2	3,254
Non PR13 enhancement expenditure	200	-	(200)	816	-	(816)	155
Total capital expenditure	**6,246**	**4,192**	**(2,054)**	**32,177**	**30,212**	**(1,965)**	**5,899**
Other expenditure							
Financing costs	2,319	2,290	(29)	9,672	9,916	244	2,422
Corporation tax (received)/paid	-	3	3	(2)	7	9	-
Total other expenditure	**2,319**	**2,293**	**(26)**	**9,670**	**9,923**	**253**	**2,422**
Total expenditure	**12,639**	**9,537**	**(3,102)**	**59,620**	**55,624**	**(3,996)**	**11,892**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £1.9bn higher than the regulatory comparative. This was mostly due to higher investment in the network. This was partly funded by the asset divestment programme undertaken this year which included disposing of a significant section of the commercial estate. In addition, the day-to-day running costs were higher than the regulator expected due to lower than expected efficiencies and higher compensation under train performance mechanisms.

(3) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Network Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(4) Income – Fixed income in the year was slightly higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided during CP5 has delivered the favourable income in the control period. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.

(5) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(6) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

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

In £m 2018-19 prices unless stated

(7) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected which has offset higher than assumed Business Rates costs. Losses recognised this year are higher than previous years as the industry growth has not matched the regulator's assumptions in the PR13 determination. The variances are set out in more detail in Statement 10.

(8) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Costs are higher than the previous year mainly due to additional commercial claims recognised in the current year. Network Operations costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Support costs are higher than the determination this year as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. Support costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(11) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

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

In £m 2018-19 prices unless stated

(12) Operating expenditure - Schedule 4 costs are higher than the determination as higher average costs of possessions have been compounded by higher levels of renewals activity requiring network possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators to book the possessions necessary to undertake renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are higher than the previous year which reflects higher renewals activity and the aforementioned additional compensation costs from delays in publishing the May timetable. These extra costs have been partly offset by more benign weather. In 2017/18, Storm Emma had a material impact on schedule 4 compensation costs. Schedule 4 costs are discussed in more detail in Statement 10.

(13) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks and the impact of hot weather over the summer months. Schedule 8 costs are discussed in more detail in Statement 10.

(14) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) partially offset by a net deferral of activity. Expenditure in the control period is £1.2bn higher than the determination which includes £0.4bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

(15) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. There were a number of differences between the profile of delivery of individual programmes compared to the original regulatory expectation. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure is lower than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with a higher proportion of investment in projects such as Thameslink, Great Western Electrification Programme and Northern Programmes taking place in the previous year. These variances are set out in more detail in Statement 3.

(16) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network, notably investment in Crossrail projects. These items are set out in more detail in Statement 3.

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

In £m 2018-19 prices unless stated

(17) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are higher than the determination expected due to higher levels of average debt in the year partly offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period were lower than the regulatory target mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments, partly offset by higher levels of average net debt. Costs are slightly lower than the previous year as higher levels of debt have been offset by lower interest costs. Financing costs are set out in more detail in Statement 4.

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

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**59,484**	**58,063**	**1,421**
Indexation to 2017-18 prices	7,314	7,140	174
Opening RAB for the year (2017-18 prices)	**66,798**	**65,203**	**1,595**
Indexation for the year	2,131	2,080	51
Opening RAB (2018-19 prices)	**68,929**	**67,283**	**1,646**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,805	2,537	268
PR13 enhancements	2,906	1,969	937
Non-PR13 enhancements	195	-	195
Total enhancements	3,101	1,969	1,132
Amortisation	(2,876)	(2,876)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**71,959**	**68,913**	**3,046**

RAB Regulatory financial position - cumulative, Great Britain

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**53,830**	**58,702**	**62,635**	**66,196**	**68,929**	**53,830**
Adjustments for the actual capital expenditure outturn in CP4	1,315	-	-	-	-	1,315
Renewals	3,049	3,117	2,712	2,262	2,805	13,945
PR13 enhancements	3,037	3,217	3,525	3,178	2,906	15,863
Non-PR13 enhancements	122	244	85	170	195	816
Total enhancements	3,159	3,461	3,610	3,348	3,101	16,679
Amortisation	(2,645)	(2,645)	(2,761)	(2,877)	(2,876)	(13,804)
Adjustments for under-delivery of regulatory outputs	(6)	-	-	-	-	(6)
Closing RAB	**58,702**	**62,635**	**66,196**	**68,929**	**71,959**	**71,959**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional enhancement investment, notably under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken. This is partly offset by lower renewals logged up to the RAB than the regulator assumed. Although Statement 9 shows that renewals investment has been higher than the regulator assumed in the first four years of the control period, not all of this expenditure is eligible to be added to the RAB under the Regulatory Accounting Guidelines (June 2017).

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Crossrail, Thameslink and Northern Hub as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider 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 does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**2,906**	**2,984**	**2,871**	**2,731**	**2,537**	**14,029**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	250	-	-	-	-	250
Capitalised financing on CP4 deferrals	5	11	11	13	12	52
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**3,161**	**2,995**	**2,882**	**2,744**	**2,549**	**14,331**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(783)	(678)	(953)	(1,121)	(502)	(4,037)
Capitalised financing on acceleration / (deferrals) of expenditure	(17)	(50)	(86)	(135)	(176)	(464)
Adjustments for efficient overspend	824	1,020	1,029	877	1,002	4,752
Capitalised financing on efficient overspend	18	58	105	151	198	530
25% retention of efficient overspend	(205)	(255)	(256)	(220)	(251)	(1,187)
Capitalised financing on efficient overspend 25% retention	(4)	(14)	(26)	(37)	(49)	(130)
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	66	44	14	(5)	32	151
Capitalised financing on efficient overspend through spend to save framework	1	4	5	(2)	11	19
Retention of efficient overspend through spend to save framework	(12)	(6)	(1)	9	(7)	(17)
Capitalised financing on efficient overspend through spend to save framwork retention	-	(1)	(1)	1	(2)	(3)
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**3,049**	**3,117**	**2,712**	**2,262**	**2,805**	**13,945**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(3)	(8)	(9)	10	6	(4)
Adjustment for 25% retention of efficient overspend	218	262	259	211	258	1,208
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	-	-	12	7	13	32
Total actual renewals expenditure (see statement 9)	**3,264**	**3,371**	**2,974**	**2,490**	**3,082**	**15,181**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**3,241**	**3,386**	**3,163**	**3,097**	**1,969**	**14,856**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	219	(217)	-	-	-	2
Capitalised financing on CP4 deferrals	4	5	-	-	-	9
Baseline adjustments	-	242	828	684	(313)	1,441
Capitalised financing on Baseline adjustments	-	5	29	62	73	169
Adjustments to DfT funding	(171)	-	-	-	-	(171)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(8)	(9)	(35)
Other adjustments	28	27	-	-	-	55
Capitalised financing on other adjustments	1	2	2	2	3	10
Adjusted PR13 determination (enhancements)	**3,318**	**3,443**	**4,015**	**3,837**	**1,723**	**16,336**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(401)	(352)	(762)	(846)	907	(1,454)
Capitalised financing on acceleration / (deferrals) of expenditure	(8)	(25)	(49)	(87)	(90)	(259)
Adjustments for efficient overspend / (underspend)	79	22	203	127	213	644
Capitalised financing on efficient overspend / (underspend)	2	4	8	16	25	55
25% retention of efficient overspend / (underspend)	(20)	(5)	(52)	(31)	(53)	(161)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(2)	(4)	(6)	(13)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements	73	173	183	191	188	808
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(43)	(30)	(44)	(27)	(155)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	19	26	62
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**3,037**	**3,217**	**3,525**	**3,178**	**2,906**	**15,863**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	138	235	67	155	201	796
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(18)	-	-	(8)	(36)	(62)
Capitalised financing on non-PR13 enhancements expenditure	2	9	18	23	30	82
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)	**122**	**244**	**85**	**170**	**195**	**816**
Total enhancements (added to the RAB - see statement 2a)	**3,159**	**3,461**	**3,610**	**3,348**	**3,101**	**16,679**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	2	1	(8)	(23)	(53)	(81)
Adjustment for retention of efficient overspend	50	47	81	83	116	377
Other adjustments	22	10	(9)	-	-	23
Adjustment for retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	524	345	482	778	637	2,766
Other adjustments	-	(1)	-	(1)	-	(2)
Total actual enhancement expenditure (see statement 3)	**3,757**	**3,863**	**4,156**	**4,185**	**3,801**	**19,762**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, the net deferral is about £4bn across the control period. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period so that there the balance in the control period only relates to Scotland programmes (as these were outside of the scope of the Hendy review).

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

In £m 2018-19 prices unless stated

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes relating to the Scotland route (which continues to use the ECAM principles, with differences to the PR13 allowances also included in this baseline adjustments heading) and programmes with their own protocol (such as Thameslink and Crossrail).

(12) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB. In addition, in 2017/18 a further capital grant of £0.3bn was received from the DfT as a contribution to Network Rail's enhancement programme. This has resulted in a reduction in the RAB with a corresponding increase in PAYGO enhancement expenditure.

(13) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.

(14) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT and Transport Scotland.

(15) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Northern Hub as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(16) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

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

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(17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(18) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

(19) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planed level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.

(20) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.

(21) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

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

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(22) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this category covers expenditure where investment is not eligible for RAB addition. The current year includes Network Rail funded investment in elements of HS2 and Northern Powerhouse programmes as well as a number of smaller discretionary schemes over and above the Hendy projects. As these parts of the overall programme were not funded by either a third party or eligible for RAB addition, the expenditure has been recognised as financial underperformance (refer to Statement 5). Expenditure in earlier years of the control period mainly relates to Network Rail contributions to the Gospel Oak to Barking electrification programme and Manchester Victoria station redevelopment. Expenditure on these programmes was funded through other sources (such as regulator's investment framework and third-party investment) but, in both instances, the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, Great Britain

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	61	(12)	(73)	141	136	(5)
Stations - National Station Improvement Programme (NSIP)	22	2	(20)	79	84	5
Stations - Access for All (AfA)	7	(1)	(8)	116	100	(16)
Development	-	11	11	126	159	33
Level crossing safety	40	10	(30)	120	125	5
Passenger journey improvement	34	(49)	(83)	66	74	8
The strategic rail freight network	97	40	(57)	232	265	33
Scottish stations fund	25	7	(18)	33	38	5
Scottish strategic rail freight investment fund	6	7	1	26	36	10
Scottish network improvement fund	90	14	(76)	128	72	(56)
Future network development fund	2	3	1	7	12	5
Total funds	**384**	**32**	**(352)**	**1,074**	**1,101**	**27**
Committed projects						
Thameslink	236	130	(106)	2,158	1,875	(283)
Crossrail	230	83	(147)	2,277	1,785	(492)
GW electrification (Paddington to Cardiff)	428	330	(98)	2,658	2,748	90
Adjustment for DfT funding - GW electrification	-	-	-	(82)	(82)	-
Bridgend to Swansea electrification	-	-	-	22	20	(2)
East West Rail (committed scheme)	15	142	127	311	407	96
Northern Hub	237	218	(19)	1,630	1,567	(63)
IEP Programme	67	26	(41)	419	448	29
North Trans Pennine Electrification East	129	(47)	(176)	293	287	(6)
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	18	(5)	(23)	133	169	36
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(91)	(91)	-
Stafford area improvement scheme	-	2	2	187	183	(4)
West coast power supply upgrade	5	32	27	212	224	12
Edinburgh Glasgow Improvements Programme (EGIP) Electrification of Springburn to Cumbernauld	6	-	(6)	16	18	2
Edinburgh Glasgow Improvements Programme (EGIP) Edinburgh to Glasgow Electrification	17	-	(17)	544	208	(336)
Edinburgh Glasgow Improvements Programme (EGIP) Edinburgh Gateway Station	-	-	-	3	43	40
Edinburgh Glasgow Improvements Programme (EGIP) Infrastructure Projects	32	2	(30)	85	302	217
Border Railway Project	-	1	1	201	200	(1)
Total committed projects	**1,420**	**914**	**(506)**	**10,973**	**10,311**	**(662)**
Named schemes						
The Electric Spine:						
MML electrification	7	(419)	(426)	302	61	(241)
Derby station area remodelling	83	55	(28)	141	133	(8)
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	(5)	(5)	-	3	3
Electric spine (DfT SoFA amount)	235	547	312	461	866	405
Total Electric Spine	**325**	**178**	**(147)**	**904**	**1,063**	**159**
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	-	-	-	4	2	(2)
Oxford Station area capacity and station enlargement	40	54	14	92	138	46
Total Thames Valley	**40**	**54**	**14**	**97**	**143**	**46**
Midlands	-	-	-	-	-	-
Walsall to Rugeley electrification	43	57	14	136	136	-
Total Midlands	**43**	**57**	**14**	**136**	**136**	**-**
Yorkshire						
Huddersfield station capacity improvement	-	-	-	(1)	-	1
Total Yorkshire	**-**	**-**	**-**	**(1)**	**-**	**1**

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Airports & ports:						
Western access to London Heathrow Airport	-	-	-	8	9	1
Service Improvements in the Ely Area	-	-	-	1	1	-
Redhill additional platform	1	-	(1)	60	59	(1)
Total airports & ports	**1**	**-**	**(1)**	**69**	**69**	**-**
South East						
Waterloo	86	148	62	466	465	(1)
Total South East	**86**	**148**	**62**	**466**	**465**	**(1)**
West						
Dr Days to Filton Abbey Wood capacity improvements	69	50	(19)	131	129	(2)
Bristol Temple Meads passenger capacity	2	-	(2)	4	9	5
Total West	**71**	**50**	**(21)**	**135**	**138**	**3**
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	124	114	(10)	254	268	14
Rolling programme of electrification (Scotland)	140	205	65	413	381	(32)
Carstairs journey time improvements	-	-	-	1	2	1
Highland main line journey time improvements (phase 2)	36	11	(25)	46	138	92
Motherwell area stabling	-	-	-	-	11	11
Motherwell resignalling enhancements	(2)	-	2	-	3	3
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland	**298**	**330**	**32**	**714**	**803**	**89**
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	-	-	-	-	-
South London HV traction power upgrade	1	(5)	(6)	4	4	-
West Anglia main line capacity increase	29	18	(11)	82	88	6
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	(5)	(5)	4	5	1
West of England DMU capability works	6	24	18	24	40	16
East Kent resignalling phase 2	-	-	-	57	58	1
Stevenage and Gordon Hill turnbacks	5	2	(3)	8	9	1
Reading, Ascot to London Waterloo train lengthening	15	9	(6)	47	48	1
Uckfield line train lengthening	-	(1)	(1)	21	20	(1)
MML long distance high speed services train lengthening	3	(19)	(22)	7	1	(6)
Route gauge Clearance for different EMUs	20	-	(20)	38	42	4
Bradford Mill Lane capacity	-	(1)	(1)	-	3	3
Leeds station capacity	-	-	-	-	-	-
Chiltern Main Line Train Lengthening	-	(1)	(1)	17	16	(1)
North West train lengthening	2	12	10	4	35	31
New Cross Grid	6	-	(6)	21	16	(5)
Anglia traction power supply upgrade	19	4	(15)	47	50	3
Sussex traction power supply upgrade	33	17	(16)	118	125	7
Wessex traction power supply upgrade	1	(5)	(6)	47	47	-
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	3	-	(3)	34	37	3
LNE routes traction power supply upgrade	26	(1)	(27)	34	33	(1)
Total HLOS capacity metric schemes:	**169**	**48**	**(121)**	**615**	**678**	**63**
Third party funded						
Welsh Valley lines electrification	-	(1)	(1)	2	3	1
Total Third Party funded	**-**	**(1)**	**(1)**	**2**	**3**	**1**

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
CP4 Project Rollovers						
Birmingham New St Gateway	2	(19)	(21)	199	201	2
Bromsgrove Elec - Midlands Improvements Programme	5	(1)	(6)	65	65	-
Redditch Branch Enhancement	-	-	-	19	19	-
Kent power supply upgrade (CP4)	-	(1)	(1)	68	69	1
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	1	(1)	(2)	91	84	(7)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	17	17	-
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Battersea Park Station Planform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	-	2	2	28	26	(2)
Westerleigh Junction - Barnt Green linespeed increase	-	(2)	(2)	-	5	5
Station Security	2	4	2	3	4	1
Other CP4 Rollover	2	-	(2)	8	-	(8)
Total CP4 rollovers	**12**	**(18)**	**(30)**	**519**	**513**	**(6)**
Other projects						
Seven day railway projects	-	(1)	(1)	60	65	5
ERTMS Cab fitment	-	(39)	(39)	32	38	6
R&D allowance	-	1	1	15	21	6
Depots and stabling	43	(98)	(141)	238	272	34
Income generating property schemes	72	(4)	(76)	442	342	(100)
Other income generating investment framework schemes	-	4	4	-	21	21
Adjustment for DFT Funding - Other	-	-	-	(310)	-	310
Total other projects	**115**	**(137)**	**(252)**	**477**	**759**	**282**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**2,964**	**1,655**	**(1,309)**	**16,180**	**16,182**	**2**
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	26	-	(26)
DNOs clearance work	(8)	-	8	13	-	(13)
OCSLNE SCPF Newcastle Station	-	-	-	21	-	(21)
Tram Train Project	8	-	(8)	17	-	(17)
NW Electrification	3	-	(3)	104	-	(104)
Borders New Railway	-	-	-	8	-	(8)
W001cReadingIndFeeder	20	-	(20)	75	-	(75)
Ilkestone New Station	-	-	-	6	-	(6)
Cambridge North Stn (Non Cash)	-	-	-	6	-	(6)
Crossrail	66	-	(66)	84	-	(84)
G001 Gospel O2B OLE (Non Cash)	-	-	-	40	-	(40)
Brighton ML Upgrade	9	-	(9)	9	-	(9)
Other government sponsored schemes	84	-	(84)	158	-	(158)
Total Government sponsored schemes	**182**	**-**	**(182)**	**567**	**-**	**(567)**
Network Rail spend to save schemes						
Mountfield	-	-	-	34	-	(34)
Other spend to save schemes	3	-	(3)	4	-	(4)
Total Network Rail spend to save schemes	**3**	**-**	**(3)**	**38**	**-**	**(38)**
East West Rail (committed scheme)	-	-	-	153	-	(153)
Other	-	-	-	11	-	11
Total Schemes promoted by third parties	**-**	**-**	**-**	**164**	**-**	**(164)**
Discretionary Investment	**15**	**-**	**(15)**	**47**	**-**	**(47)**
Total non PR13 enhancement expenditure	**200**	**-**	**(200)**	**816**	**-**	**(816)**
Total Network Rail funded enhancements (see Statement 1)	**3,164**	**1,655**	**(1,509)**	**16,996**	**16,182**	**(814)**
Third Party PAYG	**637**	**-**	**(637)**	**2,766**	**-**	**(2,766)**
Total enhancements (see statement 2b)	**3,801**	**1,655**	**(2,146)**	**19,762**	**16,182**	**(3,580)**

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

In £m 2018-19 prices unless stated

Notes:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those relating to the Scotland route and programmes with their own protocol (such as Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

(2) The baseline for projects that are not subject to the Hendy review, such as Scotland enhancements programmes, have been updated to reflect the latest level of funding agreed with the regulator. This will incorporate changes arising through the ECAM (Enhancements Cost Adjustment Mechanism) process or from other agreed funding alterations.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £3,164m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£3,801m) less the PAYGO schemes funded by third parties (£637m).

(5) Investment expenditure this year was lower than the previous year reflecting the progress of delivery across a number of programmes, with notable contributions from Thameslink and Great Western Electrification.

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

In £m 2018-19 prices unless stated

(6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline, which has reversed some of the underspend witnessed in earlier years of the control period. Across CP5, expenditure has been lower than the Hendy baseline but there have been overspends on certain programmes. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure across the control period is higher than the baseline as extra work has been identified to improve the network in this area ahead of CP6. Expenditure this year included work on Werrington Grade separation and Kings Cross re-modelling.

b. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is higher than the baseline in the current year it is lower across the control period as insufficient schemes with compelling business cases have been identified and delivered in CP5. Investment this year included works at Stanford Le Hope, Elstree & Borehamwood and Bridgend.

c. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. This included delivery of important projects at Finsbury Park, Leyland, Virginia Water and Severn Tunnel Junction stations.

d. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. There was minimal expenditure in the current year and across the control period, investment was lower than the Hendy baseline.

e. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the Hendy baseline which has offset reductions experienced in the earlier years of CP5. Across the control period investment is slightly lower than the Hendy baseline. This slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.

f. Passenger Journey Improvement - this fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Whilst expenditure was higher than the baseline this year, it is lower than the Hendy expectation across the control period as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.

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

In £m 2018-19 prices unless stated

g. The Strategic Rail Freight Network - the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Although expenditure is higher than the baseline this year, it is lower across the control. Investment this year includes major investment in the Ipswich to Felixstowe capacity project, as well as works at Southampton and Peak Forest to London works.

h. Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been higher than planned which has helped mitigate some of the underspends experienced in earlier years of the control period. Across the control period, investment has been slightly lower than the regulatory assumption as fewer suitable projects have been identified and delivered. Expenditure this year includes projects to improve accessibility at Addiewell station and on the Shotts line, as well as work at Dunblane and Robroyston.

i. Scottish strategic Rail Freight Investment Fund - the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year is consistent with the regulatory expectation, but lower investment earlier in the control period has meant that expenditure in the control period is lower than the determination.

j. Scottish network improvement fund - the purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year is noticeably higher than the determination. As agreed with Transport Scotland, headroom available in the CP5 loan agreement was channelled through this fund to deliver improvements for passengers in Scotland. This included work at Polmaide & Rutherglen, extra depot works, Blackfrod South connection improvements and installation of superfast wi-fi facilities at stations. As these increases in scope have been agreed with Transport Scotland, the delivery of additional outputs are outside the scope of financial performance assessments.

k. Future network development fund – this fund is to finance or support the development of proposals for strategic interventions to improve the capacity and capability of the Scottish network in CP6 and beyond. Expenditure in the year and the control period is slightly lower than the baselines as fewer schemes have been identified and delivered than the regulator expected.

(7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period in this category is higher the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline (such as Crossrail and Thameslink) and some which have spent less (such as East West Rail and GW electrification (Paddington to Cardiff)). The notable variances between expenditure and the baseline are set out below:

a. Thameslink - the objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and the control period is higher than the baseline. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a which has been offset by deferral of activity as parts of the programme have been delayed into CP6. 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). A large part of the investment this year was around London Bridge area to facilitate traffic increases.

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b. Crossrail - this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year and control period due to higher underlying costs of the work that has been completed which has resulted in financial underperformance (refer to Statement 5). This has been partly offset by reductions in the progress of the overall programme, such as Western stations works. This year there has been a reclassification of funding from third party PAYGO to Crossrail as agreed with ORR and DfT. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

c. GW electrification - this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is higher than the baseline this year, which has reversed some of the underspend witnessed in earlier years of the control period. Across CP5, costs are lower than the Hendy baseline. This is mainly due to programme deferral which has been partly offset by financial underperformance (refer to Statement 5). Slower progress on the programme has been caused by a variety of factors, including: working around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery. A higher proportion of the expenditure was in Wales this year as the programme spreads Westwards.

d. Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

e. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period is largely consistent with the baseline.

f. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower than the baseline this year, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2 which accounted for the extra spend earlier in the control period as did some of the financial underperformance reported (refer to Statement 5). The lower costs for the control period are mainly due to deferrals of activity to later years as the output and timing of this programme have been re-phased in line with DfT commitments.

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g. Northern Hub - the outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs in the control period are higher than the baseline which reflects higher underlying programme costs partly mitigated by deferral of activity into CP6. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review by the time the works finish in CP6. Expenditure this year includes improvements to power supplies at Liverpool Lime Street station and work in the Leeds area.

h. IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure in the year is higher than the baseline but remains behind for the control period. As noted in last year's Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme.

i. North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. Investment across the control period is broadly in line with the Hendy baseline for CP5. The slightly higher costs relate to acceleration of activity from CP6. In the current year, DfT set a new baseline for the programme which has resulted in the negative baseline included for 2018/19. Notable schemes this year included platform extensions and work in the Leeds area.

j. North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East (see above) as the baseline for this programme has been expanded to include the West element.

k. Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Expenditure across the control period was lower than the Hendy baseline. This was mostly due to financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.

l. Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

m. Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target. As planned, there was minimal investment in the current year as the programme is substantially complete.

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n. West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period are lower than the baseline. However, this is mainly due to deferral of activity which has more than offset higher underlying costs. These additional programme costs has resulted in financial underperformance being recognised this control period (refer to Statement 5c).

o. Edinburgh Glasgow Improvements Programme - the key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. This programme should be considered in totality across the various sub-projects. Spend in the current year is higher than the regulatory assumption which expected the programme to have progressed further by the end of CP5. Across the control period, costs are higher than the regulator expected. Those projects that have been delivered have been at a higher underlying cost which has resulted in financial underperformance being recognised (refer tot Statement 5).

p. Border Railway Project - this project will provide a new rail route between Newcraighall and Tweedbank with 7 new stations to permit operation of a half hourly passenger service. Costs in the year are minimal as the programme has largely completed. Expenditure across the control period is in line with the regulatory expectation.

(8) PR13 funded schemes – named schemes - expenditure in the year is higher than the baseline, negating some of the underspends from earlier years of the control period. Across CP5, expenditure is lower than the regulatory assumption mostly due to postponement of outputs until future control periods, most notably electrification works. Notable variances between expenditure and baselines are set out below:

a. Midland Mainline Electrification - this project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. This year, the management of this programme has been combined with the Electric Spine programme which has resulted in a significant adjustment to the Hendy baseline this year. Therefore, progress should be considered in conjunction with Electric Spine. Across the two headings, investment has been lower then Hendy baseline this control period as parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered to be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5). This has been reported under the Electric Spine heading in Statement 5.

b. Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. This programme should be considered in conjunction with the Electric Spine programme as responsibility for delivering outputs between these two schemes has merged. Expenditure across the control period is higher than the Hendy baseline which has contributed to the financial underperformance referenced below.

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c. Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.

d. Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. This year the DfT change control process resulted is a change in the scope of the programme to deliver many of the projects previously managed through the MML electrification category. Therefore, progress should be considered across the two headings. Expenditure in the control period is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Programme elongation has resulted in financial underperformance (as reported in Statement 5).

e. Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity this control period.

f. Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure for the control period is largely in line with the Hendy target.

g. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.

h. Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure across the control period is in line with the Hendy baseline. However, this includes a significant reduction in the outputs delivered. The increase in overall programme costs has been impacted by prolongation of the project and higher than expected contractor costs and project complexity. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

i. Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

j. Western access to London Heathrow Airport – this project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period is broadly in line with the agreed baseline.

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k. Service improvements in the Ely area – this project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period is minimal as it has been agreed that the scheme will now be delivered in the next control period.

l. Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Expenditure across the control period is in line with the Hendy review expectations. However, this is mainly due to a reduction in the outputs delivered in CP5. Extra work has been required from to meet timetable commitments resulting in higher underlying project costs. As a result, financial underperformance has been reported for CP5 (refer to Statement 5c).

m. Waterloo - this project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment across the control period is broadly in line with the Hendy baseline. There was significant investment in this programme in the current year, including work on the old international section of the station to increase passenger capacity.

n. Dr Days to Filton Abbey Wood Capacity Improvements - the project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure across the control period is consistent with the Hendy baseline. However, this is due to higher underlying costs being offset by reductions in scope. The higher underlying costs have resulted in financial underperformance (refer to Statement 5a).

o. Bristol Temple Meads Passenger Capacity – this project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period has been minimal as parts of this programme have been postponed until CP6.

p. Aberdeen to Inverness journey time improvements and other enhancements - this project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure across the control period was slightly lower than baseline agreed with ORR and Transport Scotland. Despite this, financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs. This has been more than offset by delays in the programme mainly due to changes in blockade strategy to reduce passenger disruption and to tie into other programmes in the route, such as Rolling Programme of Electrification.

q. Rolling programme of electrification (Scotland) - this project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been lower than the regulator assumed for the year but higher across the control period. These higher costs are mostly due to higher overall programme costs which is reflected in the level of financial underperformance in CP5 (refer to Statement 5a).

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r. Highland main line journey time improvements (phase 2) - this project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. Expenditure in the control period is lower than the baseline as project delivery has been reprofiled into future years as part of the overall rail strategy in Scotland.

s. Motherwell area stabling - this project will electrify the remaining 'back of Shops' sidings to permit the stabling of additional EMUs at Motherwell required by the electrification with a longer-term target to consolidate all stabling at Motherwell on one site with appropriate cleaning and servicing facilities. In line with Network Rail's own internal plan, there has been limited activity on this project in the control period compared to the regulatory assumption. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR.

(9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline, mitigating some of the underspend witnessed in the earlier years of the control period. Across the control period investment is lower than the Hendy baseline with notable contributions from North West Train Lengthening and West of England DMU capability works. Variances between expenditure and baselines are discussed below:

a. Leeds and Sheffield capacity - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. Investment in the control period is minimal, which is reflected in the Hendy target, as the projects outputs have been deferred until CP6.

b. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes in CP6 and beyond. Expenditure on this programme is in line with the Hendy baseline across the control period.

c. West Anglia main line capacity increase – this project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure across the control period is lower than the Hendy baseline. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. This has resulted in some of the programme being deferred into CP6.

d. Bow Junction upgrade - this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is broadly in line with the Hendy baseline across the control period.

e. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure across the control period is in lower than the Hendy baseline as some parts of the project have been deferred until CP6.

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f. East Kent resignalling phase 2 - this project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was minimal as the project is substantially complete. Costs for the control period are broadly in line with the baseline.

g. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.

h. Reading, Ascot to London Waterloo train lengthening - this project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Whilst expenditure across the control period is broadly in line with the Hendy target, not all of the outputs have been delivered yet. As a result of these underlying costs financial underperformance has been recognised (refer to Statement 5a) which has been offset by deferral.

i. Uckfield line train lengthening - the key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure across the control period is broadly in line. Expenditure in the year is minimal as the programme is substantially complete.

j. MML long-distance high-speed services train lengthening - the project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Expenditure across the control period was higher than the Hendy baseline which mainly arose in the current year. This was due to DfT reallocating some of the CP5 enhancements budget to other areas of the portfolio.

k. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure across the control period was lower than the Hendy baselines. The slight underspend compared to the baseline was mainly due to reduced output delivery and so is not eligible for inclusion as financial outperformance (refer to Statement 5).

l. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

m. Leeds station capacity – this project aims to deliver additional capacity at Leeds Station to support the operation of longer trains and additional services on a number of routes. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

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n. Chiltern Main Line Train Lengthening - this project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. Overall programme costs are broadly in line with the baseline.

o. North West train lengthening - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and across the control period. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.

p. New Cross Grid - this project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure across the control period is higher than the baseline as work has been accelerated from control period 6 funding baselines to deliver projects in the current year.

q. Anglia traction power supply upgrade - the aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure across the control period is lower than the Hendy baseline. This includes the recognition of financial outperformance (refer to Statement 5).

r. Sussex traction power supply upgrade - the principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic of the Thameslink Programme. Expenditure for the control period is lower than the Hendy baseline. This is mostly due to the recognition of financial outperformance (refer to Statement 5a).

s. Wessex traction power supply upgrade – the aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure across the control period is in line with the Hendy baseline which has been revised through the change control process.

t. London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.

u. Kent traction power supply upgrade - the project will provide the power to facilitate 12 car operation across the route. Expenditure across the control period is lower than the Hendy baseline mainly due to the recognition of financial outperformance (refer to Statement 5a).

v. London North East routes traction power supply upgrade - this project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. Expenditure across the control period is in line with the Hendy baseline Delivery of milestones have been re-phased and agreed with DfT.

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(10) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the control period is in line with baseline agreed following the Hendy review.

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

a. Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period are broadly in line with the Hendy baseline as a result of changes made to the baseline by DfT through the change control process.

b. Bromsgrove Elec - Midlands Improvements Programme - this project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn around at Longbridge to Bromsgrove. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first four years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).

c. Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period is in line with the baseline. There is minimal expenditure in the current year as this programme is substantially complete.

d. Kent Power Supply Upgrade (CP4) – the project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was minimal as the project is substantially complete. Spend for the control period is broadly in line with the Hendy baseline.

e. Barry – Cardiff Queen Street - the output of the project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. This is a CP4 capacity scheme rolled over into CP5. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.

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f. Capacity relief to the ECML (East Coast Main Line) – the scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

g. Package 7,10 Car Park West Suburban Railway – the project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period. Expenditure in the current year is minimal as this programme is substantially complete.

h. Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure is broadly line with the Hendy baseline for the control period. Expenditure in the current year is minimal as this programme is substantially complete.

i. MML Linespeed Improvements – this project aims to increase the line speed on the Midlands Main Line. Across the control period expenditure has been broadly in line with the baseline assumption. As expected, expenditure in the current year was minimal as the project is substantially complete.

j. Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure in the current year is limited as most of the programmes are now complete.

(12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline across the control period mainly due to the receipt of a £0.3bn capital grant from DfT in 2017/18 (cash prices) which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is broadly in line with the baseline assumption across CP5. Notable variances to the baseline include:

a. Seven day railway projects – there was minimal expenditure in the current year as the objectives of the fund had largely been met in the earlier years of the control period. As noted in the previous year's Regulatory financial statement the programme is now substantially complete. The lower costs of delivering the programme has resulted in some financial outperformance being recognised this control period (refer to Statement 5c) on the Mobile Maintenance System element of the programme.

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b. ERTMS Cab Fitment – the objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Some of the CP5 budget has been reallocated by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.

c. R&D allowance – following change control procedures agreed with DfT, there is not intended to be any further investment in R&D classified as Enhancements. Instead, expenditure in the current year (and for 2017/18) is included with renewals (refer to Statement 9b).

d. Depots & stabling – the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is higher than the baseline which was adjusted this year through DfT's change control process. This included transferring responsibility for delivering schemes from Network Rail to operators. Across the control period investment is lower than the Hendy baseline. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

e. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure for the control period is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Notable schemes delivered this year included purchases of items around East Croydon and Clapham Junction stations to facilitate long-term strategic operations around station redevelopments in those areas.

f. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised. The remaining baseline in the control period refers to the Scotland element of the regulatory fund. The Hendy review only extended to England & Wales schemes and so the Scotland enhancements allowance remain in line with the regulatory determination.

g. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a £0.3bm contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £0.3bn (refer to Statement 2a).

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In £m 2018-19 prices unless stated

(13) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programmes this year relate to works to facilitate the wider Crossrail programme, including works to support Old Oak Common and Paddington approached. In addition, there are also costs relating to timetable publication delays. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5). Across the control period there have also been improvements to Gospel Oak to Barking overhead line electrification, a joint project undertaken by network Rail, DfT and Rail for London. This control period also saw investment in Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. Schemes promoted by third parties – the main item in this category which accounts for the majority of the expenditure this control period was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification. Expenditure through this fund in the current year has been minimal, continuing the trend of the previous year.

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

In £m 2018-19 prices unless stated

d. Discretionary investment – expenditure in the control period includes to Manchester Victoria station redevelopment and on CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relates to expenditure incurred by Network Rail on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

e. PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. In addition, DfT made a £0.3bn contribution to the enhancement portfolio in England & Wales in 2017/18, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. Also, this year there has been a reclassification of funding from third party PAYGO to Crossrail (shown within Committed Projects) as agreed with ORR and DfT. This funding switch, along with the financing adjustment in 2017/18 noted above is the main reason for the decrease in expenditure in this heading this year compared to last year. Expenditure this year also includes investment in East West Rail and work on Network Rail's assets to support the development of the High Speed 2 (HS2) programme.

Statement 4: Net debt and financial ratios, Great Britain

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**50,358**	**46,880**	**(3,478)**	**32,300**	**31,667**	**(633)**
Income						
Grant income	(4,125)	(4,147)	(22)	(21,431)	(21,394)	37
Fixed charges	(1,038)	(991)	47	(2,756)	(2,636)	120
Variable charges	(1,261)	(1,402)	(141)	(5,688)	(6,028)	(340)
Other single till income	(2,413)	(1,113)	1,300	(5,885)	(4,728)	1,157
Total income	**(8,837)**	**(7,653)**	**1,184**	**(35,760)**	**(34,786)**	**974**
Expenditure						
Network operations	686	415	(271)	2,863	2,148	(715)
Support costs	463	447	(16)	2,007	2,311	304
Traction electricity, industry costs and rates	746	834	88	3,120	3,357	237
Network maintenance	1,525	1,120	(405)	6,658	5,640	(1,018)
Schedule 4	335	231	(104)	1,228	1,135	(93)
Schedule 8	319	5	(314)	940	22	(918)
Renewals	3,082	2,537	(545)	14,295	13,211	(1,084)
PR13 enhancement	2,964	1,969	(995)	15,255	13,939	(1,316)
Non-PR13 enhancement	200	-	(200)	770	-	(770)
Total expenditure	**10,320**	**7,558**	**(2,762)**	**47,136**	**41,763**	**(5,373)**
Financing						
Interest expenditure on nominal debt - FIM covered	245	859	614	1,850	3,372	1,522
Interest expenditure on index linked debt - FIM covered	262	317	55	1,223	1,407	184
Expenditure on the FIM	266	523	257	1,532	2,251	719
Interest expenditure on government borrowing	1,059	-	(1,059)	2,629	-	(2,629)
Interest on cash balances held by Network Rail	(9)	(33)	(24)	(38)	(111)	(73)
Total interest costs	**1,823**	**1,666**	**(157)**	**7,196**	**6,919**	**(277)**
Accretion on index linked debt - FIM covered	496	624	128	2,070	2,997	927
Total financing costs	**2,319**	**2,290**	**(29)**	**9,266**	**9,916**	**650**
Corporation tax	-	3	3	(2)	7	9
Other	(714)	-	714	506	511	5
Movement in net debt	**3,088**	**2,198**	**(890)**	**21,146**	**17,411**	**(3,735)**
Closing net debt	**53,446**	**49,078**	**(4,368)**	**53,446**	**49,078**	**(4,368)**

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

(£m, nominal prices)	March 2019 £m	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	**3,088**	**5,566**	**4,614**	**3,673**	**4,205**
Represented by:					
New debt issued					
Market issued debt	-	-	-	-	-
Borrowing from government	6,688	8,350	6,100	7,500	6,450
Accretion on index linked debt	496	678	449	224	223
Debt repaid	(4,597)	(3,172)	(2,389)	(3,070)	(2,378)
Decrease/ (increase) in net cash balances	498	(328)	441	(961)	246
Other	3	38	13	(20)	(336)
Increase in net debt	**3,088**	**5,566**	**4,614**	**3,673**	**4,205**

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

In £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

	March 2019		March 2018		March 2017		March 2016		March 2015	
(£m, nominal prices)	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
Market issued debt										
Nominal borrowings (GBP)	4,375	8%	4,375	8%	5,133	11%	5,642	13%	7,497	20%
Nominal borrowings (Foreign currency)	326	1%	2,064	4%	2,839	6%	4,727	11%	5,942	16%
Total nominal borrowings	**4,701**	**9%**	**6,439**	**12%**	**7,972**	**17%**	**10,369**	**24%**	**13,439**	**36%**
Index linked borrowings (GBP)	19,289	35%	18,790	36%	18,078	39%	17,608	42%	17,405	47%
Borrowing from government	30,594	56%	26,765	51%	20,050	44%	13,950	34%	6,450	17%
Total regulatory borrowings	**54,584**	**100%**	**51,994**	**100%**	**46,100**	**100%**	**41,927**	**100%**	**37,294**	**100%**
Uncleared cash items										
Obligations under finance lease										
Net cash balances	(1,138)		(1,636)		(1,308)		(1,749)		(789)	
Regulatory net debt as at 31 March 2018	**53,446**		**50,358**		**44,792**		**40,178**		**36,505**	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	0.93	0.89	0.74	0.53	1.03	1.03
FFO/interest	2.95	2.94	2.65	2.20	2.61	2.76
Net debt/RAB (gearing)	68.8%	70.3%	72.5%	75.4%	74.3%	71.2%
FFO/debt	9.6%	8.6%	8.0%	7.3%	8.9%	9.4%
RCF/debt	6.3%	5.7%	5.0%	4.0%	5.5%	6.0%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

E) Debt Maturity

(£m, nominal prices)	March 2015	March 2016	March 2017	March 2018	March 2019
On demand or within one year	2,280	655	1,775	2,961	10,421
Due within one to two years	2,393	3,159	4,597	10,136	6,135
Due within two to five years	8,151	13,893	14,696	11,480	11,530
Due in more than five years	23,681	22,471	23,724	25,781	25,360
Total debt	**36,505**	**40,178**	**44,792**	**50,358**	**53,446**

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail's debt has increased by £3.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years. Despite the high levels of investment this year, the increase in net debt was less than in previous years in control period 5. This was primarily due to the receipts from the asset divestment programme generated this year.

(2) Net debt at 31 March 2019 is £4.4bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.6bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£3.2bn), higher performance regime costs (£1.0bn) and higher net operating costs (£1.4bn) have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings (£0.7bn) and benefits from asset divestment (£1.4bn).

(3) Income variances are shown in more detail in Statement 6a.

(4) Network operations variances are show in more detail in Statement 7a.

(5) Support costs variances are show in more detail in Statement 7a.

(6) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(7) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation which has been partly offset by lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position. Costs are lower than the previous year due to lower average levels of this class of debt.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator anticipated largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too. Costs are higher than the previous year, which is expected as the value of accreting debt increases each year (in lieu of making interest payments), even if there are no new issuances.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed across the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

(13) Analysis of the movement in Network Rail's net debt – section B) – this section sets out how the £3.1bn increase in net debt this year was financed. As the statement shows this year a further £6.7bn was borrowed from government, which included £4.6bn to refinance nominal debt from third parties that reached maturity this year (including a $1,750m USD bond and a $1,000m USD bond). The decrease is cash balances this year is mainly a result of net movements in derivatives. Network Rail has entered into derivative contracts to hedge the risk of interest rate and foreign exchange movements. Depending upon the difference in the notional value of these hedges and the market price on each individual contract, Network Rail either must post collateral with counterparties or receives collateral payments from them. The collateral positions are classified as cash holdings in the Regulatory financial statements. The volatility in this position can be seen by the movements across each year of the control period.

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

In £m nominal unless otherwise stated

(14) Analysis of Network Rail's net debt – section C) – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. It is, therefore, not surprising that proportion of market issued debt has decreased in the year. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms due to bonds that have matured in the current year (as noted above) have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature until at least control period 7 but the nature of these items means that most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt is in line with the previous year.

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

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

In £m nominal unless otherwise stated

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail’s balance sheet reserves (i.e. the profit it has generated in previous years). This year, the ratio was consistent with the regulatory expectation. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was around 0.3, some way below the regulatory assumption. This was mainly due to higher Schedule 8, Network operations and Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail’s financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The decline in the underlying ratio compared to the previous year is mostly due to higher costs under the performance regime (schedule 4 and schedule 8) and higher operating costs, as well as higher non-accreting interest costs this year as the level of DfT issued debt increases.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above. The underlying result for the year (after removing for the impact of the asset divestment) was around 1.8.

In £m nominal unless otherwise stated

(19) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator's expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. Given the nature of Network Rail's business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(20) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. In the current year, the result was close to the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result to around 6 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the underlying ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year, as well as extra Schedule 4 costs arising from additional renewals delivered this year.

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

In £m nominal unless otherwise stated

(21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment. The underlying result for the year (after removing for the impact of the asset divestment) was around 2.9 per cent.

(22) Debt maturity – section E) shows that nearly half of Network Rail's debt is repayable in more than five years. As an infrastructure entity it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence and liquidity risk. The table in section E) shows that the proportion of short-term debt has increased during the control period. This is a direct consequence of the aforementioned reclassification of Network Rail and the impact on financing arrangements this has had. Network Rail can now only borrow directly from DfT who have decided to issue short-term debt. The high proportion of debt payable within one year largely relates to loan drawdowns repayable to DfT. It is expected that these obligations will be met by further issuances of short term debt to DfT.

Statement 5a: Total financial performance, Great Britain

In £m 2018-19 prices unless stated

					2018-19				
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	4,125	4,147	(22)		(22)	-	-	-	-
Fixed Income	1,038	991	47		47	-	-	-	-
Variable Income	869	908	(39)		-	-	-	(39)	(39)
Other Single Till Income	2,413	1,113	1,300		1,328	-	-	(28)	(28)
Opex memorandum account	(14)	-	(14)		23	-	-	(37)	(37)
Total Income	**8,431**	**7,159**	**1,272**		**1,376**	**-**	**-**	**(104)**	**(104)**
Expenditure									
Network operations	686	415	(271)		-	-	-	(271)	(271)
Support costs	463	447	(16)		4	-	-	(20)	(20)
Industry costs and rates	340	303	(37)		(20)	-	-	(17)	(17)
Traction electricity	13	34	21		-	-	-	21	21
Reporter's fees	1	3	2		2	-	-	-	-
Network maintenance	1,525	1,120	(405)		-	(37)	-	(368)	(368)
Schedule 4 costs	335	231	(104)		-	35	-	(139)	(139)
Schedule 8 costs	319	5	(314)		-	-	-	(314)	(314)
Renewals	3,082	2,537	(545)		52	416	-	(1,013)	(253)
PR13 Enhancements	2,964	1,655	(1,309)		-	(886)	-	(423)	(84)
Non PR13 Enhancements	200	-	(200)		-	(185)	-	(15)	(15)
Financing Costs	2,319	2,290	(29)		(29)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	3	3		-	(6)	-	9	9
Total Expenditure	**12,247**	**9,043**	**(3,204)**		**9**	**(663)**	**-**	**(2,550)**	**(1,451)**
Total:			**(1,932)**		**1,385**	**(663)**	**-**	**(2,654)**	**(1,555)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(1,555)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(204)
Under-delivery of train performance requirements (CaSL)	(65)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(269)**
Total financial out / (under) performance to be recognised	**(1,824)**

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	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
					Cumulative				
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	22,742	22,696	46		46	-	-	-	-
Fixed Income	2,884	2,758	126		126	-	-	-	-
Variable Income	4,402	4,438	(36)		-	-	-	(36)	(36)
Other Single Till Income	6,142	4,994	1,148		1,148	-	-	-	-
Opex memorandum account	6	-	6		55	-	-	(49)	(49)
Total Income	**36,176**	**34,886**	**1,290**		**1,375**	**-**	**-**	**(85)**	**(85)**
Expenditure									
Network operations	3,025	2,280	(745)		(5)	-	-	(740)	(740)
Support costs	2,126	2,455	329		67	-	-	262	262
Industry costs and rates	1,584	1,447	(137)		(56)	-	-	(81)	(81)
Traction electricity	86	144	58		-	-	-	58	58
Reporter's fees	6	16	10		8	-	-	2	2
Network maintenance	7,043	5,986	(1,057)		-	(90)	-	(967)	(967)
Schedule 4 costs	1,297	1,203	(94)		-	250	-	(344)	(344)
Schedule 8 costs	983	23	(960)		-	-	-	(960)	(960)
Renewals	15,181	14,030	(1,151)		72	3,544	-	(4,767)	(1,198)
PR13 Enhancements	16,180	16,182	2		-	1,469	-	(1,467)	(317)
Non PR13 Enhancements	816	-	(816)		-	(781)	-	(35)	(35)
Financing Costs	9,672	9,916	244		244	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	(2)	7	9		-	-	-	9	9
Total Expenditure	**57,997**	**53,689**	**(4,308)**		**330**	**4,392**	**-**	**(9,030)**	**(4,311)**
Total:			**(3,018)**		**1,705**	**4,392**	**-**	**(9,115)**	**(4,396)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(4,396)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(710)
Under-delivery of train performance requirements (CaSL)	(230)
Missed milestones for asset management - data quality	(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(44)
Missed Enhancement milestones	(6)
Total adjustment for under-delivery outputs	**(994)**
Total financial out / (under) performance to be recognised	**(5,390)**

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	2018-19				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 income	(392)	(494)		102	(1,623)	(1,935)		312
Total variance not included in total financial performance:	**(392)**	**(494)**		**102**	**(1,623)**	**(1,935)**		**312**
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Property Divestment	1,373	-	-	1,373	1,373	-	-	1,373
Adjustment for Crossrail finance charge	67	95	-	(28)	163	345	-	(182)
Adjustment for Welsh Valleys finance charge	-	13	-	(13)	-	26	-	(26)
Total variance not included in total financial performance:	**1,440**	**108**	**-**	**1,332**	**1,536**	**371**	**-**	**1,165**
Breakdown of variance not included in total financial performance - Support costs:								
Crossrail financing contract receipt	-	-		-	23	-		23
Spend to save adjustment	4	-		4	18	-		18
Release of CP4 long distance financial penalty provision	-	-		-	26	-		26
Total variance not included in total financial performance:	**4**	**-**		**4**	**67**	**-**		**67**
Breakdown of variance not included in total financial performance - Network Operations								
Southern resilience fund	-	-		-	(5)	-		(5)
Total variance not included in total financial performance:	**-**	**-**		**-**	**(5)**	**-**		**(5)**
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	392	494		(102)	1,623	1,935		(312)
Total variance not included in total financial performance:	**392**	**494**		**(102)**	**1,623**	**1,935**		**(312)**
Breakdown of variance not included in total financial performance - Renewals:								
Thameslink Resilience Programme	50	-		50	50	-		50
Investment of CP4 long distance financial penalty	2	-		2	22	-		22
Total variance not included in total financial performance:	**52**	**-**		**52**	**72**	**-**		**72**

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Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – extra franchise income has been generated through Network Rail providing additional services to franchises, notably in London North West and, from this year, on the Eastern section of the Crossrail line. This has been augmented by benefits arising from inflation (considered in more detail in Statement 6a). In line with the regulator's FPM guidelines no financial outperformance is recognised against these factors.

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(3) Variable income – up until this year, Network Rail had achieved marginal outperformance mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. However, in the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. Expected increases in passenger demand (as illustrated in Statement 12) in the latter years of the control period has not materialised. Timetable changes introduced in the current year were the most widespread in a generation. However, despite the improvements in capacity delivered, not all of the planned changes were able to be enacted. This coupled with operators' lack of adequately trained staff meant that the increase in services did not match the regulatory expectation. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. This is mainly due to lower freight income partly offset by extra income from offering additional services to train operators. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The PR13 assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not fully materialise. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The underperformance recognised in Other single till income this year is mainly the result of the continued decline in freight traffic (largely driven by demand for coal transportation) which have been partly offset by extra station and depot income from offering operators additional facilities. Performance in the control period is largely consistent with the determination with extra stations and depots services offered to operators and higher property sales being offset by a decline in freight income. Other single till income is set out in more detail in Statement 6a.

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(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slow freight growth owing structural changes in the industry, lower farebox income and slower than expected passenger growth have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

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(6) Network operations costs in 2018/19 are over 50 per cent higher than the regulator assumed. About one-fifth of this is due to exiting CP4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (included within the Other Single Till income heading). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM.

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(7) Support costs – for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved. In addition, there has been some additional investment to prepare the organisation for the challenges of control period 6, including additional investment in IT, telecoms and engineering standards as well as increasing organisational capability, which have been partly mitigated by reductions in expected liabilities under legacy insurance arrangements. Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

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(10) Reporters' fees – in line with the Regulatory Account Guidelines (June 2017), 25 per cent of any financial out/ under performance is retained by Network Rail. As noted in previous year's Regulatory financial statement, savings in the first four years of the control period were not recognised as financial outperformance until the full control period position was clear. As the control period has now finished, financial outperformance relating the control period savings have been reported in the current year.

(11) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

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(12) Schedule 4 costs – this year costs are higher than the determination assumed. This is mainly due to higher like-for-like costs offset by deferral of activity. The like-for-like costs were higher than the regulator assumed, continuing the trend of earlier years of the control period. These higher like-for-like costs have resulted in the financial underperformance reported in this statement. This year, over half of the higher like-for-like costs were caused by the delay in publishing the May timetable and the knock-on impact on future timetable publications. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

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(13) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including additional security staff on the London North West route at known hotspots, increased fencing and working with the Samaritans such disruption affects performance significantly. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Compensation payable under the Schedule 8 regime was over £900m higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to two items. Firstly, investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4 and, secondly, Network Rail's contribution to the Thameslink resilience fund, at the behest of DfT. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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(15)PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT and Transport Scotland to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink, Crossrail, Northern Hub and Edinburgh Glasgow Improvement Programme (EGIP). The control period position is largely dominated by these same programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The FPM recognised in the current year mainly relates to a number of projects where spend is not eligible for RAB addition. The amounts that Network Rail were allowed to charge third parties under contractual arrangements were less than the costs that the company incurred delivering these projects. This included a number of projects delivered as part of the HS2 and Northern Programmes schemes. Costs earlier in the control period are mostly due to works undertaken at Manchester Victoria station where higher contractor costs at the end of the programme increased overall project costs to more than the funding available. As these projects are not eligible for RAB addition, the financial performance impact is set at 100 per cent of the overspend, compared to other enhancements overspends where Network Rail retains only the first 25 per cent.

(17) Financing costs – financing costs this control period are lower than the regulator expected mainly due to lower interest rates (notably inflation which impacts accreting debt) which have more than offset higher levels of average net debt compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

(18) Corporation tax – no income tax payments have been made this year, although the control period position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the first four years of the control period was been treated as neutral. As noted in last year's Regulatory financial statements, this position would be revisited at the end of the control period. Consequently, the control period variance has been recognised as financial outperformance in the current year.

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

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality targets for both England & Wales and Scotland were missed in 2018/19, continuing the trend from earlier years of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.5 per cent was missed by and £0.25m (cash prices) for every 0.1 per cent that the PPM target of 92.5 per cent was missed by in the Scotland geography. The ORR's target for England & Wales PPM across the control period was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in earlier years of the control period and ever more traffic on the network.

(3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for the previous years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.

(4) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.

(5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(6) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(216)	172	(388)	(97)		(97)	-	-
Signalling	(193)	67	(260)	(65)		(64)	(1)	-
Civils	26	214	(188)	(47)		(46)	(1)	-
Buildings	(106)	(34)	(72)	(18)		(13)	(5)	-
Electrical power and fixed plant	(123)	(55)	(68)	(17)		(10)	(7)	-
Telecoms	(23)	(23)	-	-		-	-	-
Wheeled plant and machinery	(46)	(46)	-	-		-	-	-
IT	(32)	(32)	-	-		-	-	-
Property	5	13	(8)	(2)		(2)	-	-
Other renewals	163	192	(29)	(7)		(7)	-	-
Total	**(545)**	**468**	**(1,013)**	**(253)**		**(239)**	**(14)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(949)	915	(1,864)	(466)		(456)	(10)	-
Signalling	230	1,410	(1,180)	(295)		(287)	(8)	-
Civils	(299)	705	(1,004)	(251)		(196)	(55)	-
Buildings	(43)	201	(244)	(61)		(38)	(23)	-
Electrical power and fixed plant	106	398	(292)	(73)		(31)	(42)	-
Telecoms	66	86	(20)	(5)		(2)	(3)	-
Wheeled plant and machinery	195	195	-	-		-	-	-
IT	(153)	(153)	-	-		-	-	-
Property	32	40	(8)	(2)		(1)	(1)	-
Other renewals	(336)	(181)	(155)	(45)		(17)	(28)	-
Total	**(1,151)**	**3,616**	**(4,767)**	**(1,198)**		**(1,028)**	**(170)**	**-**

Where: $C = A - B$

$D = C \times 25\%$

$D = E + F + G$

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year. Over 10 per cent of this was expected in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical difficulties of using High Output delivery methods resulted in a number of routes electing not to use this delivery method in 2017/18 and 2018/19. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. The determination assumed that High Output unit costs would be half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

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

In £m 2018-19 prices unless stated

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator’s efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Signalling financial performance has adversely affected by cost increases on certain large re-signalling schemes, including additional scope and cost at Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation this control period as a result of landslips and other water damage which have affected the network throughout Great Britain. These emergency works have contributed over £125m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip. The unit rates on these types of jobs are higher than usual given the time critical nature of the incidents.

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

In £m 2018-19 prices unless stated

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle.

(6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA, programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme, and increases in the programme scope. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

(7) Telecoms – whilst like-for-like costs this year were broadly in line with regulatory targets, financial underperformance has been reported this year, continuing the trend from earlier years of the control period. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units.

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

In £m 2018-19 prices unless stated

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof). The underperformance recognised in the control period includes notable contributions from electrification projects and FTN.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(106)	-	(34)	-	(72)	(9)
East West Rail (committed scheme)	127	-	123	-	4	-
IEP Programme	(41)	-	(33)	-	(8)	(3)
Reading station area redevelopment	(23)	-	(25)	-	2	2
West coast power supply upgrade	27	-	28	-	(1)	-
Edinburgh Glasgow Improvements Programme (EGIP)	(53)	-	(18)	-	(35)	(8)
MML electrification	(426)	-	(433)	-	7	2
Walsall to Rugeley electrification	14	-	19	-	(5)	(1)
Redhill additional platform	(1)	-	(3)	-	2	1
Rolling programme of electrification (Scotland)	65	-	92	-	(27)	(6)
Kent power supply upgrade	(1)	-	(1)	-	-	-
Chiltern Main Line Train Lengthening	(1)	-	(2)	-	1	-
Aberdeen to Inverness journey time improvements and other enhancements	(10)	-	(7)	-	(3)	(1)
Capacity relief to the ECML	(2)	-	(3)	-	1	-
Seven day railway projects	(1)	-	(1)	-	-	-
MML linespeed improvements	2	-	2	-	-	-
Manchester Victoria	-	-	-	-	-	-
Crossrail	(147)	-	(31)	-	(116)	(19)
Northern Hub	(19)	-	-	-	(19)	(5)
Waterloo	62	-	62	-	-	-
Bromsgrove Elec - Midlands Improvements Programme (E-P	(6)	-	(7)	-	1	-
Dr Days Jcn to Filton Abbey Wood Capacity	(19)	-	3	-	(22)	(6)
Anglia Traction power supply upgrade	(15)	-	(23)	-	8	2
Sussex Traction power supply upgrade	(16)	-	(17)	-	1	-
Reading, Ascot to Waterloo Train Lengthening	(6)	-	(3)	-	(3)	-
GW electrification (Paddington to Cardiff)	(98)	-	(1)	-	(97)	(24)
Electric Spine	279	-	286	-	(7)	(2)
Kent traction power supply upgrade	(3)	-	(7)	-	4	1
T12 Enhancements	(33)	-	(1)	-	(32)	(8)
East coast connectivity	(73)	-	(68)	-	(5)	(5)
Stations - Access for All (AfA)	(8)	-	8	-	(16)	(16)
Other Enhancements	(977)	-	(976)	-	(1)	6
Total	**(1,509)**	**-**	**(1,071)**	**-**	**(438)**	**(99)**

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

In £m 2018-19 prices unless stated

Cumulative

	Variance to PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(283)	-	125	-	(408)	(57)
East West Rail (committed scheme)	96	-	123	-	(27)	(7)
IEP Programme	29	-	23	-	6	2
Reading station area redevelopment	36	-	3	-	33	8
West coast power supply upgrade	12	-	50	-	(38)	(10)
Edinburgh Glasgow Improvements Programme (EGIP)	(77)	-	121	-	(198)	(50)
MML electrification	(241)	-	(241)	-	-	-
Walsall to Rugeley electrification	-	-	40	-	(40)	(10)
Redhill additional platform	(1)	-	13	-	(14)	(3)
Rolling programme of electrification (Scotland)	(32)	-	2	-	(34)	(8)
Kent power supply upgrade	1	-	(8)	-	9	2
Chiltern Main Line Train Lengthening	(1)	-	2	-	(3)	(1)
Aberdeen to Inverness journey time improvements and other enhancements	14	-	22	-	(8)	(2)
Capacity relief to the ECML	(7)	-	1	-	(8)	(2)
Seven day railway projects	5	-	2	-	3	1
MML linespeed improvements	(2)	-	-	-	(2)	-
Manchester Victoria	(11)	-	-	-	(11)	(11)
Crossrail	(492)	-	(95)	-	(397)	(98)
Northern Hub	(63)	-	114	-	(177)	(44)
Waterloo	(1)	-	(1)	-	-	-
Bromsgrove Elec - Midlands Improvements Programme (E-P	-	-	5	-	(5)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	(2)	-	33	-	(35)	(9)
Anglia Traction power supply upgrade	3	-	(11)	-	14	4
Sussex Traction power supply upgrade	7	-	(1)	-	8	2
Reading, Ascot to Waterloo Train Lengthening	1	-	14	-	(13)	(3)
GW electrification (Paddington to Cardiff)	90	-	187	-	(97)	(24)
Electric Spine	400	-	407	-	(7)	(2)
Kent traction power supply upgrade	3	-	(1)	-	4	1
T12 Enhancements	(33)	-	-	-	(33)	(8)
East coast connectivity	(5)	-	-	-	(5)	(5)
Stations - Access for All (AfA)	(16)	-	-	-	(16)	(16)
Other Enhancements	(244)	-	(241)	-	(3)	(1)
Total	**(814)**	**-**	**688**	**-**	**(1,502)**	**(352)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail’s incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail’s enhancement programme, with notable exceptions being those programmes relating to the Scotland route and programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT/ Transport Scotland agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. Higher contractor close out costs for London Bridge also added to the programme expenditure, as did the elongation of the programme. These reasons have led to negative FPM being declared in both the current year and across the control period. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed in CP6 to deliver the remainder of the programme.

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

In £m 2018-19 prices unless stated

(2) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period. The reason for the increased costs includes: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.

(3) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Cost has been better than expected on the East Coast Connectivity and Power Supply Upgrade schemes. There have been lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan. This has partially been offset by overspends in the Great Western Main Line capacity scheme at Bristol Parkway station.

(4) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.

(5) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised across the control period. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations. Earlier in the control period costs increased due in part of delays in a number of sectional commissioning due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.

(6) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting in a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs, and supplementary design costs. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions as has poor weather which has impacted on-site delivery progress. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme. Finally, issues at Edinburgh Waverly station, including discovery and subsequent remediation of asbestos and unforeseen ground conditions under the location of the new platform sites have caused delays and additional costs.

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

In £m 2018-19 prices unless stated

(7) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted. The programme has also been affected by increased contractor claims and additional complexity and work required on overhead parapets to address safety concerns.

(8) Redhill additional platform – Extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which has prolonged project timescales. The minor benefit recognised this year is a result of a reduction in programme costs following successful close out or commercial disputes.

(9) Rolling programme of electrification (Scotland) – during the year programme costs have increased. This includes extra costs to meet programme deadlines, higher than expected contractor costs, delays in cantilever delivery and protracted disputes over access with landowners and utilities which has led to delays in programme delivery and so higher costs.

(10) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the control period due to lower programme costs. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs.

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

(12) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.

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

In £m 2018-19 prices unless stated

(13) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.

(14) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overheard Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

(15) Northern Hub – underperformance has been recognised this year and for the control period following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition, there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted. Further cost increases identified in the current year include additional contractor claims, difficulties integrating the new infrastructure to the power grid, underestimated complexities around tunnel works and acceleration of works to get assets into operations in line with committed timescales.

(16) Bromsgrove electrification – the expected total programme costs have increased since the Hendy baseline was set. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period in 2017/18. Further possessions had to be acquired in the current year which has resulted in extra project costs.

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

In £m 2018-19 prices unless stated

(17) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this control period resulting in the recognition of financial underperformance in the current year and control period. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.

(18) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this control period following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the works. The programme has also benefitted from efficient possession management and cooperation with power grid managers to integrate the new infrastructure to power supply points.

(19) Sussex traction power supply upgrade – some savings have been achieved this control period against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control pf programme contingencies.

(20) Reading, Ascot to Waterloo Train Lengthening – the anticipated costs of this programme have increased this control period resulting in financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council requirements.

(21) Great Western electrification – programme costs have increased this year which has resulted in the recognition of financial underperformance. This includes extra contractor and access costs to meet the Transport for Wales direction to complete the Overhead Line Electrification improvements to the Cardiff area by November 2019. Additional access and blockade costs have to be paid to operators to obtain access required to complete Overhead Line Electrification for the Newbury to Reading section. Finally, there are extra access compensation costs required to undertake a three week blockade at Bristol Parkway to deliver the Overhead Line Electrification works to this station to meet timetable commitments (December 2018).

(22) Electric spine – this should be considered along with the Derby Station Area remodelling programme. Some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed. This includes increased signalling and platform costs due to changes in the scheme design, materials price increases and revised method and sequencing during commissioning.

(23) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

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

In £m 2018-19 prices unless stated

(24) East Coast Connectivity – although funding available through this ring-fenced fund is limited, Network Rail has made the decision to invest in improvement schemes to facilitate improvements in this part of the network. In line with the Regulatory Accounting Guidelines (June 2017) none of the overspend in this category is eligible for RAB addition and so is included at 100 per cent when assessing financial underperformance.

(25) Stations - Access for All (AfA) – although funding available through this ring-fenced fund is limited, Network Rail has made the decision to invest in delivering extra facility improvements for passengers. In line with the Regulatory Accounting Guidelines (June 2017) none of the overspend in this category is eligible for RAB addition and so is included at 100 per cent when assessing financial underperformance.

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

Statement 6a: Analysis of income, Great Britain

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**4,125**	**4,147**	**(22)**	**22,742**	**22,696**	**46**	**4,623**
Franchised track access income							
Fixed charges	**1,038**	**991**	**47**	**2,884**	**2,758**	**126**	**536**
Variable charges							
Variable usage charge	183	198	(15)	922	947	(25)	181
Traction electricity charges	392	494	(102)	1,623	1,935	(312)	315
Electrification asset usage charge	19	20	(1)	85	85	-	16
Capacity charge	452	473	(21)	2,264	2,275	(11)	447
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	215	217	(2)	1,131	1,131	-	215
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**1,261**	**1,402**	**(141)**	**6,025**	**6,373**	**(348)**	**1,174**
Total franchised track access income	**2,299**	**2,393**	**(94)**	**8,909**	**9,131**	**(222)**	**1,710**
Total franchised track access and grant income	**6,424**	**6,540**	**(116)**	**31,651**	**31,827**	**(176)**	**6,333**
Other single till income							
Property income	1,785	420	1,365	3,241	1,840	1,401	388
Freight income	70	122	(52)	344	508	(164)	64
Open access income	35	31	4	168	152	16	38
Stations income	294	277	17	1,442	1,380	62	286
Facility and financing charges	126	179	(53)	456	690	(234)	145
Depots Income	91	69	22	415	347	68	93
Other income	12	15	(3)	76	77	(1)	13
Total other single till income	**2,413**	**1,113**	**1,300**	**6,142**	**4,994**	**1,148**	**1,027**
Total income	**8,837**	**7,653**	**1,184**	**37,793**	**36,821**	**972**	**7,360**

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

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity), lower financing charges income (offset by lower interest costs), lower property rental income (due to not achieving growth expected by the regulator and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail's commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the items noted above, namely lower traction electricity income, freight revenue, lower income received from financing arrangements which has partly been offset by additional income from offering additional services to operators. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with the largest contribution from higher traction electricity income, which is offset by additional costs Network Rail has to pay to acquire the electricity from suppliers.

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

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was higher than the determination this year. Network Rail has earned additional income from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. This year was also the first ever that additional income was earned from the operations commencing on the Eastern section of the Crossrail line. These gains have been partly offset by differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges for the control period are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services in the London North West route, along with income this year from services on the Crossrail line. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

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

In £m 2018-19 prices unless stated

(5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected this year. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2018/19 which necessitated extra disruptive possessions and also partly because increases in traffic assumed by the regulator in the determination over the past years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. Turnover was lower across the control period as a result of the lower traffic growth in the final two years of control period 5. Income generated is in line with the previous year.

(6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

(7) Capacity charge – in the current year this is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2018/19 which necessitated extra disruptive possessions and also partly because increases in traffic assumed by the regulator in the determination over the past 2 years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. As a result of the lower income in the current year, revenue for the control period was lower than the regulatory assumption. The aforementioned reductions in the current year compared to the ORR target offset the benefits from additional services and passenger growth earlier in the control period. There has been an increase in the amount earned in 2018/19 compared to the previous year. The extra services introduced through the May 2018 timetable was the main contributor. The prior year comparison also suffered from reductions in services caused by extreme weather, notably Storm Emma at the end of February/ start of March 2018.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The variances in the current year can be attributed to this technicality. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was consistent with the previous year, which was in line with the regulator's assumption.

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

In £m 2018-19 prices unless stated

(9) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate. This planned disposal of over 5,000 commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction at some £1.4bn makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income has been lower than the determination target this year with additional property sales partly mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, there is a favourable variance to the regulatory target which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the first half of CP5. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved, including some freight sites.

(10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing by around 80 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has decreased around 25 per cent this control period. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. There has been an increase in freight income compared to the previous year. The improvement is mainly due to favourable settlement of commercial disputes and extra traction electricity income (offset by higher traction electricity costs reported in Statement 7a).

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

In £m 2018-19 prices unless stated

(11) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target in both the current year and the control period. This has been most evident in Anglia with additional income made from services provided to London Underground. Income is slightly lower than the previous year due to lower income earned from re-charging operators for the electricity they use.

(12) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of certain stations (Reading, Bristol, Clapham Junction and Guildford) from franchised to managed meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. In the control period. Station income this control period has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations earlier in the control period along with the benefits of transferring Clapham Junction and Guildford at the start of 2018/19. This has been augmented by redeveloping certain managed stations partly offset by the transfer of stations to the franchisee in the Anglia route. Income is higher than the prior year mainly as a result of the change in the status of Clapham Junction and Guildford station as noted above.

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

In £m 2018-19 prices unless stated

(13) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this year and in the control period for both Facility fees and Financing charges. The former is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and across the control period. The reduction in the number of schemes is partly due to constraints over Network Rail's funding following increases in the enhancement portfolio costs, schedule 8, operations and underlying renewals costs. In addition, schemes are only undertaken if there is a robust business case to support the investment so whilst there is lower income reported here there is also a saving in enhancements investment. The lower Financing charges arose for both sub-categories: Crossrail finance charge and Welsh Valley finance charge. For the former the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. As noted in previous years' Regulatory financial statements, Network Rail repaid some of loan owing to Crossrail Limited in 2016/17meaning it was able to charge Crossrail Limited some of the financing costs. Further repayments occurred in 2017/18. This has meant that income received from Crossrail Limited has been significantly lower than the regulator anticipated this control period, albeit with a subsequent saving in interest costs incurred (as reported in Statement 4). Income was also lower than the regulator assumed for Welsh Valley finance charge. At the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainly over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5). Income was lower than the previous year mainly due to lower income received through Crossrail financing charges, which finished during the year in line with the contractual arrangement.

(14) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and London North East as well as benefits following the development of Reading depot in Western. Income is broadly in line with the previous year. The slight reduction reflects some one-off benefits reported in 2017/18 as a result of settlement of commercial disputes.

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

In £m 2018-19 prices unless stated

(15) Oher income – this category includes the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Income this year was lower than the regulator expected. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed sets out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Whilst this arrangement has impacted income earned over the control period, Network Rail have been able to enact efficiency strategies to alleviate the reduced turnover and so there are minimal differences to the determination targets across control period 5. Income is broadly in line with the prior year.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property income							
Property rental	317	417	(100)	1,525	1,813	(288)	316
Property sales	1,468	40	1,428	1,716	205	1,511	72
Adjustment for commercial opex	-	(37)	37	-	(178)	178	-
Total property income	**1,785**	**420**	**1,365**	**3,241**	**1,840**	**1,401**	**388**
Freight income							
Freight variable usage charge	53	80	(27)	266	356	(90)	50
Freight traction electricity charges	8	15	(7)	32	57	(25)	6
Freight electrification asset usage charge	-	1	(1)	-	5	(5)	-
Freight capacity charge	4	9	(5)	18	34	(16)	4
Freight only line charge	1	5	(4)	10	23	(13)	1
Freight specific charge	-	9	(9)	-	16	(16)	-
Freight other income	3	-	3	11	-	11	2
Freight coal spillage charge	1	3	(2)	7	17	(10)	1
Total freight income	**70**	**122**	**(52)**	**344**	**508**	**(164)**	**64**
Open access income							
Variable usage charge income	7	2	5	32	12	20	7
Open access capacity charge	2	1	1	9	7	2	2
Open access traction electricity charges	6	7	(1)	24	29	(5)	8
Fixed contractual contribution	20	21	(1)	103	104	(1)	21
Open access other income	-	-	-	-	-	-	-
Total open access income	**35**	**31**	**4**	**168**	**152**	**16**	**38**
Stations income							
Managed stations income							
Long term charge	39	37	2	189	184	5	37
Qualifying expenditure	74	49	25	337	246	91	68
Total managed stations income	113	86	27	526	430	96	105
Franchised stations income							
Long term charge	131	139	(8)	670	692	(22)	131
Stations lease income	50	52	(2)	246	258	(12)	50
Total franchised stations income	181	191	(10)	916	950	(34)	181
Total stations income	**294**	**277**	**17**	**1,442**	**1,380**	**62**	**286**
Facility and financing charges							
Facility charges	59	71	(12)	293	319	(26)	59
Crossrail finance charge	67	95	(28)	163	345	(182)	86
Welsh Valleys finance charge	-	13	(13)	-	26	(26)	-
Total facility and financing charges	**126**	**179**	**(53)**	**456**	**690**	**(234)**	**145**
Depots income	**91**	**69**	**22**	**415**	**347**	**68**	**93**
Other	**12**	**15**	**(3)**	**76**	**77**	**(1)**	**13**
Total other single till income	**2,413**	**1,113**	**1,300**	**6,142**	**4,994**	**1,148**	**1,027**

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

In £m 2018-19 prices unless stated

Notes:

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

Comments:

(1) Overall, single till income is higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund the ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income was lower than expected mostly due to lower freight income (as a result of structural declines in the coal transportation market), lower property rental turnover and lower financing income (offset by savings in interest costs). These were partly offset by extra income earned from offering additional services to operators. Income for the control period is higher than the regulatory assumption mostly due to the extra property sales income mentioned above. Reducing the impact of this, income is lower than the regulator expected due to lower Crossrail finance income (which is offset by interest cost savings), lower freight income (due to the aforementioned structural decline in key markets) and lower property rental income partly alleviated by extra station and depot services offered to operators and more property sales. Income is higher than the previous year due to additional income earned from disposing of a large section of the property estate. Adjusting for the impact of this transaction, income earned was slightly lower than last year due to lower earned from Crossrail finance charges (which is largely offset by higher financing costs reported in Statement 4).

(2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is below the regulatory expectation for both current year and the control period with the gap to the determination widening with each passing year of control period 5. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Income was in line with the previous year. The significant asset divestments made in the year resulted in reduced income towards the end of the year which was offset by higher revenue generated earlier in the year.

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

In £m 2018-19 prices unless stated

(3) Property sales – property disposals in the current year include the widely-reported divestment of large parts of the commercial estate. This planned disposal of over 5,000 commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction at some £1.4bn makes comparisons with the determination or the previous year meaningless. Excluding the impact of the asset divestment programme income was higher than the previous year due to some additional disposals being achieved, including some freight sites. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, there is a favourable variance to the regulatory target which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the first half of CP5.

(4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing by around 80 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has decreased around 25 per cent this control period. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. There has been an increase in freight income compared to the previous year. The improvement is mainly due to favourable settlement of commercial disputes and extra traction electricity income (offset by higher traction electricity costs reported in Statement 7a).

(5) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target in both the current year and the control period. This has been most evident in Anglia with additional income made from services provided to London Underground. Income is slightly lower than the previous year due to lower income earned from re-charging operators for the electricity they use.

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

In £m 2018-19 prices unless stated

(6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption in both the current year and the control period. The largest contribution to the favourable position this control period comes from the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations in early in control period 5. The current year position has been bolstered by a change in Clapham Junction and Guildford stations which came into effect from 1 April 2018. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. The increase on the previous year is predominately due to the aforementioned reclassification of Clapham Junction and Guildford stations in the Wessex route.

(7) Franchised stations – long term charge – income in the year was lower than the regulatory target. The transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which was not foreseen in the determination reduced income. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these responsibilities. This is augmented by the transfer of status of Reading, Bristol, Clapham Junction and Guildford stations from Franchised stations to Managed stations. The same factors have contributed to the lower income for the control period compared to the regulator's assumption. Income was broadly in line with the previous year.

(8) Franchised stations – Stations Lease Income – income has fallen slightly short of the regulatory target in both the current year and the control period mostly as a result of the transfer of stations (Bristol, Reading, Clapham Junction and Guildford) from Franchised stations to Managed stations as well as the transfer of Anglia stations to the franchisee as noted above. Income is broadly in line with the previous year.

(9) Facility charges – these are lower than the determination expected as Network Rail has undertaken fewer investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole. The reduction in the number of schemes is partly due to constraints over Network Rail's funding following increases in the enhancement portfolio costs, schedule 8, operations and underlying renewals costs. In addition, schemes are only undertaken if there is a robust business case to support the investment so whilst there is lower income reported here there is also a saving in enhancements investment. Revenue earned this year was in line with 2017/18.

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

In £m 2018-19 prices unless stated

Other income – this category includes

(10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. As noted in previous years' Regulatory financial statements, Network Rail repaid some of loan owing to Crossrail Limited in 2016/17 meaning it was able to charge Crossrail Limited some of the financing costs. Further repayments occurred in 2017/18. This has meant that income received from Crossrail Limited has been significantly lower than the regulator anticipated this control period, albeit with a subsequent saving in interest costs incurred (as reported in Statement 4). Income this year is lower than the previous year as the income received finished during the year in line with the contractual arrangement.

(11) Welsh Valleys finance charge – at the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainly over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).

(12) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and London North East as well as benefits following the development of Reading depot in Western. Income is broadly in line with the previous year. The slight reduction reflects some one-off benefits reported in 2017/18 as a result of settlement of commercial disputes.

(13) Other income – this category includes the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Income this year was lower than the regulator expected. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed sets out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Whilst this arrangement has impacted income earned over the control period, Network Rail have been able to enact efficiency strategies to alleviate the reduced turnover and so there are minimal differences to the determination targets across control period 5. Income is broadly in line with the prior year.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Arriva Trains Wales						
Variable Usage Charges	3.4	3.6	3.5	3.5	2.1	16.1
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	4.3	4.5	4.5	4.3	2.7	20.3
Fixed Charges	20.2	15.5	16.4	19.2	24.0	95.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	10.9	11.2	11.0	10.8	6.8	50.7
Station QX	0.4	0.4	0.5	0.5	0.3	2.1
Other Charges	1.8	1.5	1.8	1.8	1.0	7.9
Total income	**41.0**	**36.7**	**37.7**	**40.1**	**36.9**	**192.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Transport For Wales						
Variable Usage Charges	-	-	-	-	1.3	1.3
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	-	-	-	1.7	1.7
Fixed Charges	-	-	-	-	15.0	15.0
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	4.3	4.3
Station QX	-	-	-	-	0.2	0.2
Other Charges	-	-	-	-	0.8	0.8
Total income	**-**	**-**	**-**	**-**	**23.3**	**23.3**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
C2C						
Variable Usage Charges	1.9	2.1	2.2	2.3	2.3	10.8
Traction Electricity Charges	7.0	8.1	8.7	8.9	9.8	42.5
Electrification Asset Usage Charges	0.4	0.5	0.5	0.5	0.6	2.5
Capacity Charges	2.6	2.8	2.8	2.8	2.7	13.7
Fixed Charges	5.3	4.0	4.4	5.1	9.8	28.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	2.9	-	-	-	-	2.9
Station QX	-	-	0.1	0.1	-	0.2
Other Charges	1.2	1.4	1.1	1.4	1.5	6.6
Total income	**21.3**	**18.9**	**19.8**	**21.1**	**26.7**	**107.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Chiltern						
Variable Usage Charges	2.3	2.5	2.6	2.7	2.7	12.8
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.8	1.9	2.8	2.6	2.6	11.7
Fixed Charges	17.2	19.2	23.6	22.7	37.6	120.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	4.0	4.2	4.2	4.1	4.1	20.6
Station QX	-	-	-	-	-	-
Other Charges	0.2	-	0.2	2.6	0.4	3.4
Total income	**25.5**	**27.8**	**33.4**	**34.7**	**47.4**	**168.8**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Cross Country						
Variable Usage Charges	11.4	11.5	11.4	11.1	11.2	56.6
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	26.0	26.7	26.3	25.6	26.0	130.6
Fixed Charges	24.2	18.5	17.6	23.1	46.2	129.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	1.9	2.0	1.9	1.9	1.9	9.6
Station QX	3.5	4.0	4.8	4.8	4.7	21.8
Other Charges	-	-	-	-	-	-
Total income	**67.0**	**62.7**	**62.0**	**66.5**	**90.0**	**348.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
East Coast Main Line Rail						
Variable Usage Charges	21.1	-	-	-	-	21.1
Traction Electricity Charges	20.4	-	-	-	-	20.4
Electrification Asset Usage Charges	1.8	-	-	-	-	1.8
Capacity Charges	38.7	-	-	-	-	38.7
Fixed Charges	27.1	-	-	-	-	27.1
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	8.3	-	-	-	-	8.3
Station QX	3.3	-	-	-	-	3.3
Other Charges	2.8	-	-	-	-	2.8
Total income	**123.5**	**-**	**-**	**-**	**-**	**123.5**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin East Coast						
Variable Usage Charges	2.0	21.9	20.9	20.6	6.6	72.0
Traction Electricity Charges	1.9	22.0	22.0	21.8	7.3	75.0
Electrification Asset Usage Charges	0.1	1.9	2.0	1.9	0.6	6.5
Capacity Charges	3.7	43.0	43.0	43.0	13.8	146.5
Fixed Charges	2.6	22.8	24.0	28.1	18.1	95.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	0.7	8.2	8.6	7.6	2.3	27.4
Station QX	0.3	3.3	3.3	3.4	1.1	11.4
Other Charges	0.2	3.1	3.1	3.1	0.9	10.4
Total income	**11.5**	**126.2**	**126.9**	**129.5**	**50.7**	**444.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London North Eastern Railway						
Variable Usage Charges	-	-	-	-	14.6	14.6
Traction Electricity Charges	-	-	-	-	18.5	18.5
Electrification Asset Usage Charges	-	-	-	-	1.3	1.3
Capacity Charges	-	-	-	-	30.0	30.0
Fixed Charges	-	-	-	-	40.6	40.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	5.5	5.5
Station QX	-	-	-	-	2.4	2.4
Other Charges	-	-	-	-	1.2	1.2
Total income	**-**	**-**	**-**	**-**	**114.1**	**114.1**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
East Midlands						
Variable Usage Charges	8.3	8.4	8.2	8.0	8.1	41.0
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	18.8	19.3	18.9	18.6	18.4	94.0
Fixed Charges	16.5	12.5	13.1	15.5	33.5	91.1
Station Facility Charge	1.5	4.6	12.2	8.5	8.1	34.9
Station Long Term Charges	6.0	7.3	5.9	5.8	5.9	30.9
Station QX	0.3	0.3	0.3	0.3	0.3	1.5
Other Charges	7.3	7.2	7.3	7.2	7.2	36.2
Total income	**58.7**	**59.6**	**65.9**	**63.9**	**81.5**	**329.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
First Capital Connect						
Variable Usage Charges	3.4	-	-	-	-	3.4
Traction Electricity Charges	10.3	-	-	-	-	10.3
Electrification Asset Usage Charges	0.7	-	-	-	-	0.7
Capacity Charges	18.7	-	-	-	-	18.7
Fixed Charges	10.3	-	-	-	-	10.3
Station Facility Charge	0.4	-	-	-	-	0.4
Station Long Term Charges	5.1	-	-	-	-	5.1
Station QX	2.2	-	-	-	-	2.2
Other Charges	1.0	-	-	-	-	1.0
Total income	**52.1**	**-**	**-**	**-**	**-**	**52.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Govia Thameslink Railway						
Variable Usage Charges	4.7	13.3	17.2	18.1	20.2	73.5
Traction Electricity Charges	18.8	54.1	65.3	64.8	83.3	286.3
Electrification Asset Usage Charges	0.9	2.4	2.9	3.1	3.6	12.9
Capacity Charges	26.3	72.6	87.2	89.9	90.4	366.4
Fixed Charges	12.3	28.0	34.2	40.5	85.4	200.4
Station Facility Charge	0.5	3.1	4.8	4.5	4.6	17.5
Station Long Term Charges	5.8	25.1	38.3	34.4	34.9	138.5
Station QX	2.1	8.2	9.8	9.3	10.1	39.5
Other Charges	3.2	3.4	9.3	16.8	17.5	50.2
Total income	**74.6**	**210.2**	**269.0**	**281.4**	**350.0**	**1,185.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
First Great Western						
Variable Usage Charges	20.6	20.9	21.1	20.6	18.8	102.0
Traction Electricity Charges	-	-	0.2	3.3	14.2	17.7
Electrification Asset Usage Charges	-	-	-	0.2	0.8	1.0
Capacity Charges	51.3	53.3	52.7	51.6	49.8	258.7
Fixed Charges	34.3	25.5	26.0	32.4	66.7	184.9
Station Facility Charge	2.1	2.2	2.2	2.1	1.9	10.5
Station Long Term Charges	18.2	18.3	18.1	17.5	16.7	88.8
Station QX	8.6	8.6	8.4	8.2	8.0	41.8
Other Charges	28.1	24.0	23.9	26.7	22.9	125.6
Total income	**163.2**	**152.8**	**152.6**	**162.6**	**199.8**	**831.0**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Greater Anglia						
Variable Usage Charges	11.6	10.7	5.8	-	-	28.1
Traction Electricity Charges	34.3	27.5	14.7	-	-	76.5
Electrification Asset Usage Charges	2.4	2.1	1.1	-	-	5.6
Capacity Charges	19.2	15.6	8.2	-	-	43.0
Fixed Charges	28.9	19.1	10.5	-	-	58.5
Station Facility Charge	1.1	1.4	0.7	-	-	3.2
Station Long Term Charges	3.9	2.6	1.3	-	-	7.8
Station QX	3.1	2.2	1.1	-	-	6.4
Other Charges	3.1	4.7	2.7	-	-	10.5
Total income	**107.6**	**85.9**	**46.1**	**-**	**-**	**239.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Abellio East Anglia						
Variable Usage Charges	-	-	4.7	10.4	10.4	25.5
Traction Electricity Charges	-	-	14.1	28.2	30.8	73.1
Electrification Asset Usage Charges	-	-	0.9	2.1	2.0	5.0
Capacity Charges	-	-	6.8	14.2	14.4	35.4
Fixed Charges	-	-	9.2	22.8	47.2	79.2
Station Facility Charge	-	-	0.6	1.3	1.4	3.3
Station Long Term Charges	-	-	0.9	2.2	2.3	5.4
Station QX	-	-	0.9	2.1	2.2	5.2
Other Charges	-	-	2.4	5.5	5.4	13.3
Total income	**-**	**-**	**40.5**	**88.8**	**116.1**	**245.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London Midland						
Variable Usage Charges	6.5	7.1	7.1	4.8	-	25.5
Traction Electricity Charges	15.2	17.1	16.5	9.5	-	58.3
Electrification Asset Usage Charges	0.9	1.0	1.0	0.7	-	3.6
Capacity Charges	37.4	37.6	37.7	25.8	-	138.5
Fixed Charges	20.0	15.3	15.3	11.2	-	61.8
Station Facility Charge	0.3	0.3	0.2	0.2	-	1.0
Station Long Term Charges	11.6	11.9	11.8	8.0	-	43.3
Station QX	5.2	6.4	7.3	5.0	-	23.9
Other Charges	3.6	3.6	3.5	2.5	-	13.2
Total income	**100.7**	**100.3**	**100.4**	**67.7**	**-**	**369.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
West Midlands Trains						
Variable Usage Charges	-	-	-	2.1	7.1	9.2
Traction Electricity Charges	-	-	-	6.9	18.6	25.5
Electrification Asset Usage Charges	-	-	-	0.3	1.1	1.4
Capacity Charges	-	-	-	11.0	37.1	48.1
Fixed Charges	-	-	-	5.1	33.6	38.7
Station Facility Charge	-	-	-	0.1	0.4	0.5
Station Long Term Charges	-	-	-	4.0	12.1	16.1
Station QX	-	-	-	1.9	7.2	9.1
Other Charges	-	-	-	1.4	4.9	6.3
Total income	**-**	**-**	**-**	**32.8**	**122.1**	**154.9**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London Overground						
Variable Usage Charges	0.8	1.2	0.9	-	-	2.9
Traction Electricity Charges	4.5	7.6	5.1	-	-	17.2
Electrification Asset Usage Charges	0.1	0.3	0.2	-	-	0.6
Capacity Charges	2.5	3.2	2.1	-	-	7.8
Fixed Charges	4.0	4.3	2.8	-	-	11.1
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	3.8	4.7	2.9	-	-	11.4
Station QX	0.4	1.0	0.6	-	-	2.0
Other Charges	0.6	0.6	0.5	-	-	1.7
Total income	**16.7**	**22.9**	**15.1**	**-**	**-**	**54.7**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Arriva Rail London						
Variable Usage Charges	-	-	0.5	1.4	1.5	3.4
Traction Electricity Charges	-	-	3.5	7.7	9.7	20.9
Electrification Asset Usage Charges	-	-	0.1	0.3	0.3	0.7
Capacity Charges	-	-	1.1	3.2	3.3	7.6
Fixed Charges	-	-	1.8	5.5	11.0	18.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	1.9	4.5	4.6	11.0
Station QX	-	-	0.4	1.0	1.2	2.6
Other Charges	-	-	0.3	0.9	0.9	2.1
Total income	**-**	**-**	**9.6**	**24.5**	**32.5**	**66.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Merseyrail						
Variable Usage Charges	0.8	0.8	0.8	0.8	0.9	4.1
Traction Electricity Charges	6.0	6.1	5.9	5.9	6.8	30.7
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	0.5	0.5	0.5	0.5	0.5	2.5
Fixed Charges	3.6	2.7	2.8	3.2	6.6	18.9
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	8.5	8.5	8.4	8.2	8.3	41.9
Station QX	-	-	-	-	-	-
Other Charges	0.6	0.8	0.7	0.4	1.5	4.0
Total income	**20.1**	**19.5**	**19.2**	**19.1**	**24.7**	**102.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
MTR Crossrail						
Variable Usage Charges	-	0.6	0.7	0.7	1.0	3.0
Traction Electricity Charges	-	3.7	4.5	4.3	6.7	19.2
Electrification Asset Usage Charges	-	0.2	0.2	0.3	0.3	1.0
Capacity Charges	-	3.1	3.7	3.8	5.5	16.1
Fixed Charges	-	1.8	2.2	2.5	31.1	37.6
Station Facility Charge	-	-	-	0.1	0.2	0.3
Station Long Term Charges	-	0.8	0.9	1.2	2.4	5.3
Station QX	-	0.6	0.7	0.8	1.3	3.4
Other Charges	-	-	-	-	0.1	0.1
Total income	**-**	**10.8**	**12.9**	**13.7**	**48.6**	**86.0**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Northern						
Variable Usage Charges	4.7	5.3	5.8	5.4	5.7	26.9
Traction Electricity Charges	4.8	6.7	7.8	6.8	8.3	34.4
Electrification Asset Usage Charges	0.2	0.3	0.4	0.4	0.4	1.7
Capacity Charges	9.0	9.1	9.5	8.9	9.2	45.7
Fixed Charges	27.4	21.0	21.7	26.6	56.1	152.8
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	17.6	17.8	18.4	18.1	18.4	90.3
Station QX	3.3	3.3	3.6	3.6	3.8	17.6
Other Charges	5.7	5.6	7.0	7.0	7.0	32.3
Total income	**72.7**	**69.1**	**74.2**	**76.8**	**108.9**	**401.7**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Scotrail						
Variable Usage Charges	9.3	8.5	9.2	8.5	9.2	44.7
Traction Electricity Charges	13.1	14.0	15.1	14.0	18.8	75.0
Electrification Asset Usage Charges	0.9	0.8	1.0	0.9	1.2	4.8
Capacity Charges	10.8	10.7	11.2	10.4	10.4	53.5
Fixed Charges	102.4	94.7	95.7	154.5	243.5	690.8
Station Facility Charge	0.6	0.8	-	0.8	0.8	3.0
Station Long Term Charges	17.6	15.8	1.8	16.6	17.0	68.8
Station QX	3.9	0.8	3.7	3.7	3.8	15.9
Other Charges	7.0	6.7	0.3	7.2	6.8	28.0
Total income	**165.6**	**152.8**	**138.0**	**216.6**	**311.5**	**984.5**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Serco Sleeper						
Variable Usage Charges	-	1.5	1.4	1.2	1.2	5.3
Traction Electricity Charges	-	0.1	1.6	1.1	1.4	4.2
Electrification Asset Usage Charges	-	-	0.2	0.1	0.2	0.5
Capacity Charges	-	0.2	0.7	0.7	0.7	2.3
Fixed Charges	-	1.0	4.6	7.3	11.0	23.9
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	0.1	-	0.1	0.2
Station QX	-	-	0.2	0.2	0.2	0.6
Other Charges	-	-	-	-	-	-
Total income	**-**	**2.8**	**8.8**	**10.6**	**14.8**	**37.0**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South Eastern						
Variable Usage Charges	9.2	10.5	9.9	9.9	10.1	49.6
Traction Electricity Charges	35.4	37.8	41.2	42.1	48.8	205.3
Electrification Asset Usage Charges	1.0	1.1	1.1	1.2	1.2	5.6
Capacity Charges	17.6	18.5	16.9	16.5	16.5	86.0
Fixed Charges	25.4	19.4	20.5	24.5	49.1	138.9
Station Facility Charge	0.1	0.1	0.1	0.1	0.1	0.5
Station Long Term Charges	26.0	25.4	25.3	24.9	24.9	126.5
Station QX	6.2	6.0	9.2	9.3	9.7	40.4
Other Charges	8.2	7.8	8.7	8.4	8.7	41.8
Total income	**129.1**	**126.6**	**132.9**	**136.9**	**169.1**	**694.6**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South West Trains						
Variable Usage Charges	13.1	13.1	13.4	5.0	-	44.6
Traction Electricity Charges	40.3	42.7	42.2	10.8	-	136.0
Electrification Asset Usage Charges	1.1	1.1	1.2	0.5	-	3.9
Capacity Charges	28.0	28.3	28.0	10.2	-	94.5
Fixed Charges	26.9	20.5	21.8	9.5	-	78.7
Station Facility Charge	11.4	7.9	11.1	3.9	-	34.3
Station Long Term Charges	30.3	32.0	31.3	11.7	-	105.3
Station QX	4.6	5.4	5.1	1.7	-	16.8
Other Charges	8.4	11.2	9.9	3.5	-	33.0
Total income	**164.1**	**162.2**	**164.0**	**56.8**	**-**	**547.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South Western Railway						
Variable Usage Charges	-	-	-	8.2	13.7	21.9
Traction Electricity Charges	-	-	-	29.3	45.5	74.8
Electrification Asset Usage Charges	-	-	-	0.8	1.4	2.2
Capacity Charges	-	-	-	16.4	26.9	43.3
Fixed Charges	-	-	-	16.0	53.3	69.3
Station Facility Charge	-	-	-	6.6	10.9	17.5
Station Long Term Charges	-	-	-	19.5	30.5	50.0
Station QX	-	-	-	2.7	9.0	11.7
Other Charges	-	-	-	7.3	12.3	19.6
Total income	**-**	**-**	**-**	**106.8**	**203.5**	**310.3**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Southern						
Variable Usage Charges	9.5	3.9	-	-	-	13.4
Traction Electricity Charges	30.8	12.9	-	-	-	43.7
Electrification Asset Usage Charges	1.0	0.4	-	-	-	1.4
Capacity Charges	45.4	18.8	-	-	-	64.2
Fixed Charges	19.8	4.7	-	-	-	24.5
Station Facility Charge	2.4	0.9	-	-	-	3.3
Station Long Term Charges	23.5	7.4	-	-	-	30.9
Station QX	3.4	1.1	-	-	-	4.5
Other Charges	1.8	0.5	-	-	-	2.3
Total income	**137.6**	**50.6**	**-**	**-**	**-**	**188.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Transpennine						
Variable Usage Charges	5.1	5.2	4.8	3.8	4.9	23.8
Traction Electricity Charges	2.4	2.5	2.6	2.6	3.0	13.1
Electrification Asset Usage Charges	0.2	0.2	0.2	0.2	0.2	1.0
Capacity Charges	11.9	12.1	11.7	11.7	13.9	61.3
Fixed Charges	12.0	10.0	11.1	13.1	27.4	73.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	4.0	4.0	3.4	3.4	3.4	18.2
Station QX	1.7	2.0	1.8	1.7	1.7	8.9
Other Charges	0.1	0.1	0.1	0.1	0.1	0.5
Total Turnover	**37.4**	**36.1**	**35.7**	**36.6**	**54.6**	**200.4**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin West Coast						
Variable Usage Charges	34.7	33.6	33.7	32.3	29.5	163.8
Traction Electricity Charges	41.5	45.1	50.3	40.2	51.7	228.8
Electrification Asset Usage Charges	3.4	3.4	3.5	3.4	3.5	17.2
Capacity Charges	77.4	77.8	77.4	74.6	76.2	383.4
Fixed Charges	46.2	35.2	37.0	43.0	91.1	252.5
Station Facility Charge	9.4	9.5	9.4	9.3	9.2	46.8
Station Long Term Charges	12.2	12.3	12.2	12.1	11.6	60.4
Station QX	6.5	6.7	7.1	7.0	7.0	34.3
Other Charges	1.5	1.5	1.7	0.1	0.1	4.9
Total Turnover	**232.8**	**225.1**	**232.3**	**222.0**	**279.9**	**1,192.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Non-Franchised Train Operators						
Variable Usage Charges	2.8	5.0	6.0	5.8	5.6	25.2
Traction Electricity Charges	3.4	1.4	2.8	3.0	4.0	14.6
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.4	1.9	2.0	1.9	1.8	9.0
Fixed Charges	20.7	20.5	20.1	20.1	20.1	101.5
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	1.7	1.2	1.5	1.4	1.5	7.3
Station QX	0.7 -	0.2	0.2	0.3	0.3	1.3
Other Charges	0.2	0.2	0.2	0.3	0.3	1.2
Total Turnover	**30.9**	**30.0**	**32.8**	**32.8**	**33.6**	**160.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Charter Train Operators						
Variable Usage Charges	0.9	0.6	0.6	0.6	0.7	3.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	-	-	-	-	-
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total Turnover	**0.9**	**0.6**	**0.6**	**0.6**	**0.7**	**3.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Freight Operating Companies						
Variable Usage Charges	63.3	53.3	48.2	50.7	53.3	268.8
Traction Electricity Charges	7.1	5.6	5.4	6.5	7.9	32.5
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	3.7	4.0	3.8	3.7	3.7	18.9
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Other Charges	9.5	4.2	3.8	4.2	5.3	27.0
Total Turnover	**83.7**	**67.2**	**61.3**	**65.2**	**70.3**	**347.7**

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

In £m 2018-19 prices unless stated

Notes:

(1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.

(2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.

(3) No PR13 comparison has been provided by the ORR for this schedule.

(4) Fixed Charges – there has been an increase in Fixed charges across most operators compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a.

(5) Changes in Freight income and Open access operator income are discussed in more detail in Statement 6a.

(6) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category. Compared to the previous year, Govia has some additional income in Other charges relating to new depot facilities. This has been partly offset by reduced Station Long Term Charges. The 2016/17 figures benefitted from settlement of previous claims and so income was artificially high in that year.

(7) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.

(8) During 2018/19 responsibility for the London North East rail franchise transferred from Virgin East Coast to London North Eastern Railway. As a result, income received from Virgin East Coast has dropped noticeably compared to 2017/18.

(9) During 2018/19, London North Eastern Railway was created to operate the London North East rail franchise whilst the government assessed franchising options for this route. Therefore, income is recognised for the first time against this operator in this year's Regulatory Financial Statements.

(10) In 2015/16 MTR Crossrail started to operate services so was shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator in 2015/16 compared to 2014/15. Income is higher this year compared to earlier years not only as a result of the aforementioned increase in Fixed charges affecting almost all operators, but also due to increased traffic on the Crossrail route in 2018/19.

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

In £m 2018-19 prices unless stated

(11) Abelio East Anglia replaced Greater Anglia as the franchise operator during 2016/17 which accounts for the movements between 2015/16 and 2016/17 for these two operators.

(12) In 2015/16 Serco Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.

(13) In 2015/16 a number of stations were transferred to c2c on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2016/17 compared to 2014/15.

(14) In 2016/17, Arriva Rail London assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground in 2016/17 compared to 2015/16 with a corresponding increase in Arriva Rail London. A full year of income is included for Arriva Rail London in 2017/18, which accounts for the majority of the increase between these years.

(15) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station. This included settlement of charges relating to services rendered in 2015/16. Consequently, income recognised in 2017/18 was lower than 2016/17.

(16) In 2017/18, West Midlands Trains replaced London Midland as the franchise operator on the London North West route and so was included in the Regulatory Financial Statements for the first time that year. This also resulted in a decrease in London Midland income in 2017/18 compared to the previous year. Income is higher in the current year than 2017/18 as the new franchise was in place for the whole of the current year, as well as the aforementioned increases in Fixed charges affecting almost all operators.

(17) In 2017/18, South Western Railway replaced South West Trains as the principle operator in the Wessex route. Consequently, the income earned by the latter was shown for the first time in 2017/18, whilst the former has a noticeable year-on-year decrease in their turnover in the above table in those years. Income is higher in the current year than 2017/18 as the new franchise was in place for the whole of the current year.

(18) Arriva Trains Wales – this franchise ended in October 2018. Responsibility for operations in this area now resides with Transport for Wales, which means that Arriva Trains Wales has a reduction in income this year compared to the previous year.

(19) Transport for Wales – this franchise commenced in October 2018, so this is the first year that income has been included in the Regulatory Financial Statements.

(20) Chiltern – The Fixed Supplementary income which was previously classed as Other Charges in this statement has now been classed as Fixed Charges for all years of the control period.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	287	210	(77)	1,425	1,197	(228)	287
Signalling shift managers	18	14	(4)	93	73	(20)	18
Local operations managers	18	16	(2)	105	82	(23)	22
Controllers	45	34	(11)	203	171	(32)	43
Electrical control room operators	16	12	(4)	70	59	(11)	13
Total signaller expenditure	**384**	**286**	**(98)**	**1,896**	**1,582**	**(314)**	**383**
Non-signaller expenditure							
Mobile operations managers	41	30	(11)	198	163	(35)	41
Managed stations	72	38	(34)	322	206	(116)	63
Performance	14	14	-	84	74	(10)	14
Customer relationship executives	11	7	(4)	38	37	(1)	8
Route enhancement managers	6	-	(6)	11	-	(11)	-
Weather	15	18	3	71	99	28	14
Other	43	14	(29)	191	74	(117)	40
Operations delivery	8	-	(8)	24	-	(24)	5
HQ - Operations services	4	-	(4)	9	-	(9)	1
HQ - Performance and planning	1	-	(1)	23	-	(23)	2
HQ - Stations and customer services	2	-	(2)	6	-	(6)	2
HQ - Other	147	28	(119)	375	153	(222)	92
Other operating income	(62)	(20)	42	(223)	(108)	115	(50)
Total non-signaller expenditure	**302**	**129**	**(173)**	**1,129**	**698**	**(431)**	**232**
Total network operations expenditure	**686**	**415**	**(271)**	**3,025**	**2,280**	**(745)**	**615**
Support costs							
Core support costs							
Human resources	19	56	37	140	314	174	18
Information management	71	60	(11)	341	328	(13)	63
Government and corporate affairs	10	19	9	60	99	39	9
Group strategy	12	12	-	40	61	21	8
Finance	28	28	-	117	149	32	24
Business services	23	14	(9)	96	75	(21)	17
Accommodation	74	74	-	417	390	(27)	79
Utilities	58	44	(14)	255	232	(23)	52
Insurance	19	47	28	165	257	92	38
Legal and inquiry	6	6	-	36	33	(3)	5
Safety and sustainable development	22	8	(14)	114	45	(69)	20
Strategic sourcing	14	9	(5)	45	51	6	7
Business change	3	3	-	12	18	6	4
Other corporate functions	60	3	(57)	226	18	(208)	45
Core support costs	**419**	**383**	**(36)**	**2,064**	**2,070**	**6**	**389**
Other support costs							
Asset management services	33	46	13	178	236	58	30
Network rail telecoms	48	29	(19)	217	193	(24)	34
National delivery service	-	(2)	(2)	-	8	8	-
Infrastructure Projects	(24)	-	24	(128)	-	128	(25)
Commercial property	10	(6)	(16)	(5)	(23)	(18)	5
Group costs	(23)	(3)	20	(199)	(29)	170	(25)
Total other support costs	**44**	**64**	**20**	**62**	**385**	**323**	**19**
Total support costs	**463**	**447**	**(16)**	**2,126**	**2,455**	**329**	**408**
Traction electricity, industry costs and rates							
Traction electricity	405	528	123	1,709	2,079	370	323
Business rates	223	203	(20)	967	915	(52)	224
British transport police costs	87	71	(16)	457	381	(76)	91
RSSB costs	10	9	(1)	52	47	(5)	10
ORR licence fee and railway safety levy	16	18	2	87	92	5	18
Reporters fees	1	3	2	6	16	10	1
Other industry costs	4	2	(2)	21	12	(9)	4
Total traction electricity, industry costs and rates	**746**	**834**	**88**	**3,299**	**3,542**	**243**	**671**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**1,895**	**1,696**	**(199)**	**8,450**	**8,277**	**(173)**	**1,694**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a). Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(4) Network operations costs in 2018/19 are over 50 per cent higher than the regulator assumed. About one-fifth of this is due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination. Whilst core Signaller costs are consistent year-on-year, extra Managed stations have arisen from the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Also, Higher HQ – Other costs largely reflect expenses relating to commercial claims recognised this year as the control period draws to a close and additional costs incurred which have been offset by higher Other operating income this year.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. This year, for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

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

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(6) Human resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year.

(7) Information management – costs are higher than the determination assumed this year mainly due to a larger IT estate as more programmes and systems are supported than the determination originally assumed. In addition, some extra investment has been undertaken this year to help generate efficiencies across the organisation next control period. The higher costs this year explain most of the variance to the regulatory target across the control period. Costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period 6.

(8) Government and corporate affairs – costs are notably lower than the determination in the year and control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Costs this year are in line with the previous year.

(9) Group strategy – this year, expenditure is consistent with the determination expectation. Costs have been lower than the ORR anticipated this control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

(10) Finance – costs were lower than the determination. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs between 2015/16 and 2017/18, part of the Group strategy team and Business Services in 2016/17.

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

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(11) Business services – costs in this category are higher than the determination assumption this year. The higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption across the control period. Costs in the year are higher than the previous year due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(12) Accommodation – these property expenses were consistent with the determination this year. For the control period costs were higher than the regulatory target. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 17 per cent lower than the CP4 exit position by the end of control period 5, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the ambitious regulatory target. Costs are lower than the previous year with lower rents and service charges being negotiated for corporate offices.

(13) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

(14) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

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

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(15) Legal and inquiry – costs for the current year are consistent with the determination expectation. However, this is a net position arising from both increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. This extra expense has been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Costs in the control period are slightly higher than the regulator assumed. This is a combination of the above factor as well as the incorporation of Business Change activities into this department for some of the earlier years of the control period. Expenses in the current year are consistent with the previous year.

(16) Safety and sustainable development - costs are much higher than the determination in the year and the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. Costs are largely in line with the previous year.

(17) Strategic sourcing – costs are higher than the determination assumption for the year. This includes some commercial and litigation claims included in this year. Across the control period savings have been made which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are higher than the previous year due to the aforementioned commercial and litigation claims.

(18) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6. Costs reported for Business change this year are in line with the previous year.

(19) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

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

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(20) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(21)Network Rail telecoms – costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year.

(22)National Delivery Services – costs are in line with the previous year but slightly adverse to the regulatory assumption. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement. Support costs are in line with the previous year.

(23)Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(24)Commercial Property – net costs is the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. These extra costs have negated savings achieved from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow). Net costs in the current year are higher than the previous year including the aforementioned transfer of Railway Heritage Trust activity this year.

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

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(25)Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in re-organisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. The credit recognised in Group this year is in line with the previous year.

(26)Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(27)Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(28)Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency's revaluation exercise.

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

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(29) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.

(30) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism has been slightly higher than the regulator's expectation across the control period. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry. Expenses are in line with the previous year.

(31) ORR licence fee and railway safety – costs this year are slightly lower than the regulator assumed, continuing the trend of the earlier years of the control period. Expenses are in line with the previous year.

(32) Reporters fees – once more, costs have been lower than the regulator expected for activity undertaken by organisations in their role as independent Reporters. The assumption made in the determination about the level of work Reporters would be contracted to undertake has proved incorrect. Costs are in line with the previous year.

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

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	305	308	304	312	315
Operations and customer services non-signalling					
MOMS	37	38	41	42	41
Control	52	52	53	59	62
Planning & Performance Staff Costs	35	41	39	46	44
Managed Stations Staff Costs	20	21	27	23	26
Operations Management Staff Costs	27	29	25	28	31
Other	65	101	104	105	167
Total operations & customer services costs	541	590	593	615	686
Total Network Operations	**541**	**590**	**593**	**615**	**686**
Support					
Human resources					
Functional support	17	18	17	17	18
Training (inc Westwood)	12	9	-	-	-
Graduates	-	2	-	-	-
Apprenticeships	9	9	-	-	-
Other	7	1	2	1	1
Total human resources	45	39	19	18	19
Information management					
Support	6	1	5	5	10
Projects	1	1	-	1	-
Licences	-	-	-	-	-
Business operations	67	66	59	56	60
Other	-	-	1	1	1
Total information management	74	68	65	63	71
Finance	20	20	25	24	28
Business Change	2	3	-	4	3
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	8	8	8	7	14
Planning & development	9	8	3	8	12
Safety & compliance	-	-	-	-	-
Other corporate services	17	18	19	21	23
Commercial property	88	78	78	84	84
Infrastructure Projects	(21)	(30)	(28)	(25)	(24)
Route Services	21	21	21	20	27
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	47	44	54	52	58
Network Rail Telecoms	54	49	32	34	48
Digital Railway	18	24	21	12	14
Safety Technical & Engineering	45	45	34	37	41
Government & Corporate Affairs	17	13	11	9	10
Business Services	16	13	27	17	23
Route Asset Management	1	2	-	5	10
Legal and inquiry	8	9	8	5	6
Group/central					
Pensions	-	-	-	-	-
Insurance	54	62	(9)	38	19
Redundancy/reorganisation costs	19	11	11	11	12
Staff incentives/Bonus reduction	(27)	(7)	-	(9)	(3)
Accommodation & Support Recharges	(30)	(29)	(28)	(28)	(28)
Commercial claims settlements	-	(33)	(9)	(7)	-
ORR financial penalty	(26)	-	-	-	-
Other	2	(4)	-	8	(4)
Total group/central costs	(8)	-	(35)	13	(4)
Total support	**461**	**432**	**362**	**408**	**463**
Total network operations and support costs	**1,002**	**1,022**	**955**	**1,023**	**1,149**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) Network Operations – whilst core signaller costs are in line with the previous year, there has been a noticeable increase in Other costs this year. This includes the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Whilst this should result in additional income (as shown in Statement 6a), there are additional costs required to run the stations. Also, a number of commercial claims have been received this year as the control period draws to a close. There has also been additional investment in the System Operator function to develop capabilities ahead of the role it is required to play to support the industry in CP6.

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

(5) Human Resources – costs are in line with the previous year but noticeably lower than the early years of the control period. As noted in last year's Regulatory financial statements many of the responsibilities have been transferred from Human resources department to other areas of the organisation. As part of Network Rail's devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories compared to earlier in the control period due to the responsibility for these activities moving to Business services. Costs are in line with the previous year.

(6) Information management – costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period 6.

(7) Finance – costs increases during the control period have been the result of responsibilities transferring from other cost categories, including Railway Heritage Trust costs, parts of planning & regulation and parts of Shared Services. This extra scope has been offset by efficiencies made from improved working practices and tight control on headcount and staff costs.

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

In £m 2018-19 prices unless stated

(8) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department. As part of Network Rail's planning for CP6 a new Transformation and Efficiency directorate has been created. These costs are included in the Business change category from 2017/18 and have remained broadly similar this year.

(9) Planning & development – the costs in this area decreased in 2016/17 as some responsibilities were transferred to the Finance department. Over the final two years of the control period costs increased as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

(10) Route Services – costs are higher than the previous year after being relatively stable over the previous years of the control period. The increase this year arise primarily from routes increasing the size and scope of their support teams ahead of the challenges set out in the regulator's determination for control period 6.

(11) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. As noted in the prior year's Regulatory financial statements the comparatively lower costs in 2015/16 was due to lower market rates and some one-off benefits. Costs are higher than the previous year reflecting unfavourable market movements.

(12) Telecoms – costs are higher than the previous year which is mainly due to some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. There is a notable decrease in costs in 2016/17 which was largely driven by renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities. costs for the year are higher than the determination.

(13) Digital railway – costs are broadly similar to last year. As noted in the prior years' Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. Since then, more of the activity has been focused on delivery of physical projects and so is included within capital projects.

(14) Safety, Technical & Engineering - costs are in higher than the previous year. There has been extra investment this year in developing updated engineering standards ahead of the start of the new control period. Expenses were higher at the start of the control period which included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(15) Government & corporate affairs - costs are similar to the previous year. The reduction in costs compared to earlier years of the control period is mostly due to devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.

(16) Business services - costs in the year are higher than the previous year. This is mainly due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(17) Route asset management – costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator’s determination for control period 6.

(18) Legal and inquiry – as noted above, Business change costs increased earlier in the control period as a result of the new Transformation and Efficiency directorate being included separately. Previously these costs were included within Legal and inquiry and so costs in this category reduced. Costs this year were in line with the previous year.

(19) Group – Insurance – costs are lower than last year. This is mainly due to some benefits arising from the latest actuarial assessment of the liabilities Network Rail face in these areas, most notably the costs to third parties that network Rail Insurance Limited (a wholly-owned subsidiary of Network Rail) are expected to incur. As reported in previous years Regulatory financial statements there was a benefit arising from the year end actuarial review of liabilities in 2016/17 which accounts for the lower cost in that year. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result, premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high-profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result, the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail’s road fleet) which are now more expensive. In 2016/17, there was a significant benefit from the actuarial assessment of liabilities incurred by Network Rail under its insurance arrangements.

(20) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there were costs incurred in 2014/15 too. Since then, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least control period 6. Expenses in the current year are in line with the previous year and the general trend over the past few years.

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

In £m 2018-19 prices unless stated

(21) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower pay-outs under long-term incentive plans. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in 2017/18 mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. In the current year there was also a benefit of reduced performance-related payments made to staff, although the reduction was less than that witnessed in 2017/18.

(22) Group – commercial claims settlements – as noted in the previous year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance. In 2016/17, there were further contractual refinements for which Network Rail were compensated. The amount in 2017/18 largely relates to receipts from delivering parts of the Thameslink programme to agreed timescales. No amounts are reported against this category this year.

(23) Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15, after the conclusion of the control period, the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

(24) Group - Other – following changes in legislation introduced by the government with effect from April 2017, companies are charged 0.5 per cent of their pay bill to fund the government's Apprentice Levy. The costs of this extra tax was included in Group for the first time in 2017/18. As foretold in the previous year's Regulatory financial statements, in the current year these costs are included in the relevant department, rather than centrally, to improve transparency and provide greater understanding of costs. This year, the credit recognised mainly relates to amounts receivable from providing services to NRHS, in line with the regulator's expectation.

Statement 7c: Insurance reconciliation, Great Britain

In £m 2018-19 prices unless stated

A) Reconciliation of costs

Risk	Market based insurance: Underlying cost	Claims paid	Market premiums A	Self insurance: Underlying cost	Claims recognised by the captive B	Captive premiums	Other C	Total: Total cost D
Property	0	0	2	9	0	6	0	2
Business interruption	0	0	2	9	0	0	0	2
Terrorism	0	0	3	0	0	0	0	3
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	2	3	0	15	0	2
Motor	0	0	1	1	0	0	0	1
Construction all risks	0	0	1	0	0	1	0	1
Other cover	0	0	1	0	0	1	0	1
Investment return	0	0	0	0	0	0	1	1
Total	**0**	**0**	**12**	**23**	**0**	**23**	**1**	**13**

Total insurance recognised in:

	Underlying cost	Claims paid	Market premiums A	Underlying cost	Claims recognised by the captive B	Captive premiums	Other C	Total cost D
Schedule 4 & 8	0	0	2	9	0	0	0	2
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	10	14	0	23	1	11
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	**0**	**0**	**12**	**23**	**0**	**23**	**1**	**13**

B) Analysis of Network Rail Insurance Limited, Great Britain

Profit/(loss) derived from:	**2018-19**	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**Cumulative**
Operations	29	23	61	(56)	(29)	28
Investment revenues	2	1	2	2	1	8
Finance costs	0	0	0	0	0	0
Profit/(loss) before tax	**31**	**24**	**63**	**(54)**	**(28)**	**36**
Tax	0	0	0	0	0	0
Profit/(loss) attributable to shareholders	**31**	**24**	**63**	**(54)**	**(28)**	**36**

Statement 7c: Insurance reconciliation, Great Britain – continued

In £m 2018-19 prices unless stated

Notes:

(1) Total insurance cost: A+B+C=D

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.

(4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

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

(2) This year Network Rail Insurance Limited has made a profit (unaudited) which benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives, and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. The profit (unaudited) made by Network Rail Insurance Limited is slightly higher than last year.

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				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	291	(4)	0	287	210	0	0	210	(81)	4	0	(77)
Signalling shift managers	18	0	0	18	14	0	0	14	(4)	0	0	(4)
Local operations managers	19	(1)	0	18	16	0	0	16	(3)	1	0	(2)
Controllers	46	(1)	0	45	34	0	0	34	(12)	1	0	(11)
Electrical control room operators	17	(1)	0	16	12	0	0	12	(5)	1	0	(4)
Total signaller expenditure	**391**	**(7)**	**0**	384	286	**0**	**0**	**286**	**(105)**	**7**	**0**	**(98)**
Non-signaller expenditure												
Mobile operations managers	42	(1)	0	41	30	0	0	30	(12)	1	0	(11)
Managed stations	72	0	0	72	38	0	0	38	(34)	0	0	(34)
Performance	26	(12)	0	14	14	0	0	14	(12)	12	0	0
Customer relationship executives	11	0	0	11	7	0	0	7	(4)	0	0	(4)
Route enhancement managers	15	(9)	0	6	0	0	0	0	(15)	9	0	(6)
Weather	15	0	0	15	18	0	0	18	3	0	0	3
Other	44	(1)	0	43	14	0	0	14	(30)	1	0	(29)
Operations delivery	61	(53)	0	8	0	0	0	0	(61)	53	0	(8)
HQ - Operations services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Performance and planning	9	(8)	0	1	0	0	0	0	(9)	8	0	(1)
HQ - Stations and customer services	3	(1)	0	2	0	0	0	0	(3)	1	0	(2)
HQ - Other	183	(36)	0	147	28	0	0	28	(155)	36	0	(119)
Other operating income	0	0	(62)	(62)	0	0	(20)	(20)	0	0	42	42
Total non-signaller expenditure	**485**	**(121)**	**(62)**	**302**	**149**	**0**	**(20)**	**129**	**(336)**	**121**	**42**	**(173)**
Total network operations expenditure	**876**	**(128)**	**(62)**	**686**	**435**	**0**	**(20)**	**415**	**(441)**	**128**	**42**	**(271)**

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				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	20	0	(1)	19	58	0	(2)	56	38	0	(1)	37
Information management	95	(22)	(2)	71	64	0	(4)	60	(31)	22	(2)	(11)
Government and corporate affairs	10	0	0	10	19	0	0	19	9	0	0	9
Group strategy	22	(9)	(1)	12	12	0	0	12	(10)	9	1	0
Finance	23	6	(1)	28	28	0	0	28	5	(6)	1	0
Business services	37	(7)	(7)	23	15	0	(1)	14	(22)	7	6	(9)
Accommodation	74	0	0	74	74	0	0	74	0	0	0	0
Utilities	72	0	(14)	58	44	0	0	44	(28)	0	14	(14)
Insurance	19	0	0	19	47	0	0	47	28	0	0	28
Legal and inquiry	6	0	0	6	6	0	0	6	0	0	0	0
Safety and sustainable development	30	(7)	(1)	22	8	0	0	8	(22)	7	1	(14)
Strategic sourcing	14	0	0	14	23	0	(14)	9	9	0	(14)	(5)
Business change	3	0	0	3	3	0	0	3	0	0	0	0
Other corporate functions	111	(1)	(50)	60	3	0	0	3	(108)	1	50	(57)
Core support costs	**536**	**(40)**	**(77)**	**419**	**404**	**0**	**(21)**	**383**	**(132)**	**40**	**56**	**(36)**
Other support costs												
Asset management services	84	(41)	(10)	33	69	0	(23)	46	(15)	41	(13)	13
Network Rail telecoms	72	(23)	(1)	48	29	0	0	29	(43)	23	1	(19)
National delivery service	0	0	0	0	27	0	(29)	(2)	27	0	(29)	(2)
Infrastructure projects	449	(457)	(16)	(24)	0	0	0	0	(449)	457	16	24
Commercial property	65	(15)	(40)	10	31	0	(37)	(6)	(34)	15	3	(16)
Group costs	(8)	(7)	(8)	(23)	4	0	(7)	(3)	12	7	1	20
Total other support costs	**662**	**(543)**	**(75)**	**44**	**160**	**0**	**(96)**	**64**	**(502)**	**543**	**(21)**	**20**
Total support costs	**1,198**	**(583)**	**(152)**	**463**	**564**	**0**	**(117)**	**447**	**(634)**	**583**	**35**	**(16)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing keepers	1,433	(8)	0	1,425	1,197	0	0	1,197	(236)	8	0	(228)
Signalling shift managers	94	(1)	0	93	73	0	0	73	(21)	1	0	(20)
Local operations managers	109	(4)	0	105	82	0	0	82	(27)	4	0	(23)
Controllers	214	(11)	0	203	171	0	0	171	(43)	11	0	(32)
Electrical control room operators	78	(8)	0	70	59	0	0	59	(19)	8	0	(11)
Total signaller expenditure	**1,928**	**(32)**	**0**	**1,896**	1,582	**0**	**0**	**1,582**	**(346)**	**32**	**0**	**(314)**
Non-signaller expenditure												
Mobile operations managers	205	(7)	0	198	163	0	0	163	(42)	7	0	(35)
Managed stations	320	2	0	322	206	0	0	206	(114)	(2)	0	(116)
Performance	106	(22)	0	84	74	0	0	74	(32)	22	0	(10)
Customer relationship executives	44	(6)	0	38	37	0	0	37	(7)	6	0	(1)
Route enhancement managers	55	(44)	0	11	0	0	0	0	(55)	44	0	(11)
Weather	79	(8)	0	71	99	0	0	99	20	8	0	28
Other	289	(98)	0	191	74	0	0	74	(215)	98	0	(117)
Operations delivery	237	(213)	0	24	0	0	0	0	(237)	213	0	(24)
HQ - Operations services	9	0	0	9	0	0	0	0	(9)	0	0	(9)
HQ - Performance and planning	72	(49)	0	23	0	0	0	0	(72)	49	0	(23)
HQ - Stations and customer services	7	(1)	0	6	0	0	0	0	(7)	1	0	(6)
HQ - Other	466	(91)	0	375	153	0	0	153	(313)	91	0	(222)
Other operating income	1	0	(224)	(223)	0	0	(108)	(108)	(1)	0	116	115
Total non-signaller expenditure	**1,890**	**(537)**	**(224)**	**1,129**	**806**	**0**	**(108)**	**698**	**(1,084)**	**537**	**116**	**(431)**
Total network operations expenditure	**3,818**	**(569)**	**(224)**	**3,025**	**2,388**	**0**	**(108)**	**2,280**	**(1,430)**	**569**	**116**	**(745)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	160	(11)	(9)	140	326	0	(12)	314	166	11	(3)	174
Information management	480	(124)	(15)	341	351	0	(23)	328	(129)	124	(8)	(13)
Government and corporate affairs	68	(8)	0	60	99	0	0	99	31	8	0	39
Group strategy	95	(50)	(5)	40	61	0	0	61	(34)	50	5	21
Finance	105	14	(2)	117	149	0	0	149	44	(14)	2	32
Business services	137	(18)	(23)	96	78	0	(3)	75	(59)	18	20	(21)
Accommodation	420	(3)	0	417	390	0	0	390	(30)	3	0	(27)
Utilities	331	(2)	(74)	255	232	0	0	232	(99)	2	74	(23)
Insurance	165	0	0	165	257	0	0	257	92	0	0	92
Legal and inquiry	37	(1)	0	36	33	0	0	33	(4)	1	0	(3)
Safety and sustainable development	158	(37)	(7)	114	45	0	0	45	(113)	37	7	(69)
Strategic sourcing	45	0	0	45	123	0	(72)	51	78	0	(72)	6
Business change	12	0	0	12	18	0	0	18	6	0	0	6
Other corporate functions	694	(211)	(257)	226	18	0	0	18	(676)	211	257	(208)
Core support costs	**2,907**	**(451)**	**(392)**	**2,064**	**2,180**	**0**	**(110)**	**2,070**	**(727)**	**451**	**282**	**6**
Other support costs							**0**	**0**				
Asset management services	406	(190)	(38)	178	351	0	(115)	236	(55)	190	(77)	58
Network Rail telecoms	364	(114)	(33)	217	193	0	0	193	(171)	114	33	(24)
National delivery service	0	0	0	0	151	0	(143)	8	151	0	(143)	8
Infrastructure projects	2,249	(2,332)	(45)	(128)	0	0	0	0	(2,249)	2,332	45	128
Commercial property	271	(80)	(196)	(5)	154	0	(177)	(23)	(117)	80	19	(18)
Group costs	(35)	(21)	(143)	(199)	4	0	(33)	(29)	39	21	110	170
Total other support costs	**3,255**	**(2,737)**	**(455)**	**63**	**853**	**0**	**(468)**	**385**	**(2,402)**	**2,737**	**(13)**	**322**
Total support costs	**6,162**	**(3,188)**	**(847)**	**2,127**	**3,033**	**0**	**(578)**	**2,455**	**(3,129)**	**3,188**	**269**	**328**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(3) Network operations costs in 2018/19 are approximately 40 per cent higher than the regulator assumed. About one-fifth of this is due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination. Whilst core Signaller costs are consistent year-on-year, extra Managed stations have arisen from the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Also, Higher HQ – Other costs largely reflect expenses relating to commercial claims recognised this year as the control period draws to a close and additional costs incurred which have been offset by higher Other operating income this year.

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

In £m 2018-19 prices unless stated

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. This year, for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator’s targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator’s control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

(5) Information management – costs are higher than the determination assumed this year mainly due to a larger IT estate as more programmes and systems are supported than the determination originally assumed. In addition, some extra investment has been undertaken this year to help generate efficiencies across the organisation next control period. The higher costs this year explain most of the variance to the regulatory target across the control period. Costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period

(6) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year.

(7) Government and corporate affairs costs are notably lower than the determination in the year and control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Costs this year are in line with the previous year.

(8) Group strategy – this year, expenditure is consistent with the determination expectation. Costs have been lower than the ORR anticipated this control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

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

In £m 2018-19 prices unless stated

(9) Finance – costs were lower than the determination. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs between 2015/16 and 2017/18, part of the Group strategy team and Business Services in 2016/17.

(10) Business services – costs in this category are higher than the determination assumption this year. The higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption across the control period. Costs in the year are higher than the previous year due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(11) Accommodation these property expenses were consistent with the determination this year. For the control period costs were higher than the regulatory target. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 17 per cent lower than the CP4 exit position by the end of control period 5, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the ambitious regulatory target. Costs are lower than the previous year with lower rents and service charges being negotiated for corporate offices.

(12) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.

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

In £m 2018-19 prices unless stated

(13)Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(14)Legal and inquiry – costs for the current year are consistent with the determination expectation. However, this is a net position arising from both increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. This extra expense has been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Costs in the control period are slightly higher than the regulator assumed. This is a combination of the above factor as well as the incorporation of Business Change activities into this department for some of the earlier years of the control period. Expenses in the current year are consistent with the previous year.

(15) Safety and sustainable development - costs are much higher than the determination in the year and the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. Costs are largely in line with the previous year.

(15) Strategic sourcing – costs are higher than the determination assumption for the year. This includes some commercial and litigation claims included in this year. Across the control period savings have been made which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are higher than the previous year due to the aforementioned commercial and litigation claims.

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

In £m 2018-19 prices unless stated

(16) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6. Costs reported for Business change this year are in line with the previous year.

(17) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

(18) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(19) Network Rail telecoms – costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year. This also explains the reduction reported in Other operating income this year compared to 2017/18.

(20) National Delivery Services – costs are in line with the previous year but slightly adverse to the regulatory assumption. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement. Support costs are in line with the previous year.

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

In £m 2018-19 prices unless stated

(21) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year. There has been a noticeably increase in Other operating income this year which is due to undertaking additional work on third party assets. There is a corresponding increase in the gross costs of the department to deliver these works.

(22) Commercial Property – net costs is the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. These extra costs have negated savings achieved from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow). Net costs in the current year are higher than the previous year including the aforementioned transfer of Railway Heritage Trust activity this year.

(23) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	620	418	(202)	2,931	2,269	(662)	591
Signalling	227	160	(67)	1,078	843	(235)	221
Civils	187	149	(38)	888	785	(103)	190
Buildings	70	56	(14)	298	284	(14)	72
Electrical power and fixed plant	116	99	(17)	521	516	(5)	110
Telecoms	30	20	(10)	136	111	(25)	29
Other network operations	225	150	(75)	1,004	819	(185)	181
Asset management services	69	35	(34)	293	187	(106)	56
National Delivery Service	(3)	46	49	(38)	241	279	(9)
Property	6	6	-	45	29	(16)	6
Group	(22)	(19)	3	(113)	(98)	15	(23)
Total network maintenance	**1,525**	**1,120**	**(405)**	**7,043**	**5,986**	**(1,057)**	**1,424**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works, and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some slight increases reflecting extra works undertaken to improve asset performance. The impact of the prolonged hot weather in summer 2018 had an adverse impact on asset condition that required rectification.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, which accounts for the net difference to the regulatory expectation for the control period as a whole. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. The level of resources anticipated, and potential efficiencies assume d in the regulator's control period 5 determination now appear over optimistic. Costs in the control period are only slightly higher than the regulatory assumption. This is partly due to delays in significant electrification enhancements being delivered which reduced the need for maintenance teams as well as through a number of local efficiencies, including restricting overtime and undertaking more risk-based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category. Costs have increased compared to 2017/18 as this year additional investment has been undertaken to improve resilience of Electrification equipment to maintain train performance levels. The impact of the prolonged hot weather in summer 2018 had an adverse impact on asset condition that required rectification.

(7) Telecoms – costs are higher that the regulatory assumption this year and in the control period. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.

(8) Other network operations – costs for the current year are higher than the regulator's expectation continuing the trend of the earlier years of the control period. This is largely due to additional investment in performance improvement plans and safety enhancement schemes as well as a transfer of activity from some of the other headings in this statement reflecting changes in responsibilities between different parts of the organisation. Costs for the control period as a whole have also been impacted from one-off costs from consolidation in Wessex Delivery Units and for activity transferring from other headings within this statement. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. A total of £39m was spent in 2014/15 and £7m in 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result of activity transferring additional investment in vegetation clearance, performance improvement initiatives and investment in front-line staff welfare facilities, notably in London North Western and Scotland.

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

In £m 2018-19 prices unless stated

(9) Asset management services – as with earlier years of the control period, costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant, additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. Costs are higher than the previous year. As noted in last year's Regulatory financial statements, costs in 2017/18 benefitted from a favourable settlement of a commercial claim. Without that non-recurring benefit this year, costs have reverted to a similar level to those in 2016/17.

(10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral.

(11) Property – expenses in the current year are in line with the determination but are higher for the control period. This is mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenants' bankruptcy earlier in the control period which left Network Rail to bear the costs of site clearance. Costs are similar to the previous year.

(12) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Track	8,133	8,143	8,580	8,524	8,605
Signalling	3,268	3,262	3,774	3,782	3,834
Civils	261	247	244	246	257
Buildings	155	169	208	204	278
Electrical power and fixed plant	1,516	1,521	1,734	1,965	1,952
Telecoms	488	522	516	515	534
Other network operations	1,631	1,790	2,054	2,004	1,981
Asset management services	-	-	-	-	-
National delivery service	743	1,081	1,105	1,121	1,133
Property	-	-	-	-	-
Group	-	-	-	-	-
Other maintenance	-	-	-	-	-
Total network maintenance headcount	**16,195**	**16,735**	**18,215**	**18,361**	**18,574**

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

Notes:

(1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.

(2) This statement refers to the average heading during the year.

(3) This statement records the full-time equivalent staff rather than the total number of employees.

(4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. Whilst there have been increases across most of the asset categories as activity ramps up ahead of meeting the regulator's challenges for the recently-published control period 6 determination, the most noticeable is in Buildings.

(2) Electrical power and fixed plant headcount has increased over the course of the control period. This is in response to increased levels of electrified assets on the network following major enhancement programmes, notably in Western and Wales.

(3) Buildings – as noted above, the most noticeable increase this year is in Buildings where the team in London North Western route was significantly expanded to reduce dependency on external resource, providing more direct control and flexibility in resource deployment.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Ashford	26	24	25	25	25	125
Bedford	20	19	19	19	18	95
Bletchley	31	31	32	33	33	160
Bristol	21	20	22	22	21	106
Brighton	27	28	26	26	27	134
Carlisle	26	26	27	29	31	139
Clapham	28	27	29	41	44	169
Cardiff	33	33	33	36	37	172
Croydon	26	27	28	26	27	134
Derby	24	24	27	27	25	127
Doncaster	20	19	20	20	20	99
Eastleigh	24	22	23	37	39	145
Edinburgh	23	23	25	20	19	110
Glasgow	15	15	15	24	23	92
Hitchin	25	26	27	26	25	129
Ipswich	29	28	28	29	30	144
Leeds	18	20	20	20	19	97
Liverpool	24	26	27	27	24	128
London Bridge	25	26	26	27	26	130
London Euston	30	27	27	26	28	138
Manchester	32	31	32	34	34	163
Motherwell	30	29	28	28	31	146
Newcastle	23	27	28	26	26	130
Orpington	21	22	22	22	21	108
Perth	15	15	17	17	20	84
Plymouth	15	15	16	17	18	81
Preston	16	15	17	17	16	81
Reading	16	19	21	24	25	105
Romford	36	33	35	35	36	175
Saltley	26	28	30	31	32	147
Sandwell & Dudley	21	23	25	26	27	122
Sheffield	15	15	20	17	18	85
Shrewsbury	15	17	18	19	19	88
Stafford	22	23	23	26	27	121
Swindon	15	18	22	19	21	95
Tottenham	35	33	34	34	35	171
Warrington	22	20	21	21	23	107
Woking	31	27	26	0	0	84
York	21	23	25	25	22	116
Centrally managed						
Structures examinations	77	94	111	115	112	509
Major items of maintenance plant	6	5	4	9	11	35
HQ managed activities	71	37	29	32	40	209
Other	236	306	304	290	370	1,506
Total network maintenance	**1,312**	**1,366**	**1,414**	**1,424**	**1,525**	**7,041**

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

In £m 2018-19 prices unless stated

Notes:

(1) These costs only include direct costs

(2) No PR13 comparison has been provided by the ORR for this schedule

(3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

(1) Overall maintenance costs are higher than the previous year. This is mainly a result of Network Rail increasing its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6.

(2) Total depots costs this year are in line with 2017/18.

(3) Notable changes earlier in the control period are set out below:

a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the costs for Woking depot in 2017/18 compared to earlier years of the control period following the closure of the depot in 2016/17. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The savings made from the Woking depot closure is mostly offset by increased costs in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

b. Glasgow/ Edinburgh - costs in the Glasgow depot are higher in 2017/18 compared to earlier years of the control period. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the costs attributed to the Edinburgh depot and the Other category which have been largely offset by increases in HQ Managed Activities. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

c. Reading - this depot has higher costs in 2017/18 compared to earlier years of the control period. This is due to new electrification teams recruited to manage the new electrified assets in the Western route.

d. Cardiff – costs in this depot have increased in 2017/18 which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.

(4) HQ managed activities – costs are higher than the previous year, with most of the increase in the Scotland route. This year, the Scotland route reinvested some of the savings made in earlier years in the control period across the business as a whole to fund improvements in the network to help performance and put programmes in place to drive efficiencies in control period 6, notably vegetation management strategies.

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

In £m 2018-19 prices unless stated

(5) Other – costs are noticeably higher than the prior year. As shown in last year's Regulatory financial statements, costs in this category were lower in 2017/18 compared to previous years. This was partly due to a non-recurring benefit last year following successful mitigation of a commercial claim. The extra costs this year includes extra works undertaken in the Scotland route utilising the headroom in their funding as noted above such as increased leaf clearance teams, repairs at Ayr station, lineside clearance initiatives, Railway Heritage Trust activities and additional asset inspections. Elsewhere on the network there has also been performance improvement schemes and vegetation management investment to prepare the network for the challenges set out by the recently-published regulator's control period 6 determination.

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

	2014-15			2015-16			2016-17			2017-18			2018-19		
	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306	311	-	311	372	-	372
Bedford	300	-	300	301	-	301	284	-	284	293	-	293	302	-	302
Bletchley	364	1	365	390	1	391	365	-	365	365	-	365	368	-	368
Bristol	366	1	367	378	1	379	326	-	326	357	-	357	362	1	363
Brighton	358	1	359	329	-	329	324	-	324	330	-	330	333	-	333
Carlisle	373	-	373	378	-	378	374	-	374	375	-	375	382	-	382
Clapham	300	-	300	317	-	317	335	1	336	498	1	499	493	-	493
Cardiff	416	1	417	423	1	424	444	1	445	477	1	478	510	-	510
Croydon	295	-	295	275	2	277	287	-	287	287	-	287	298	-	298
Derby	460	1	461	495	-	495	400	-	400	528	-	528	526	-	526
Doncaster	292	-	292	291	-	291	294	-	294	303	-	303	296	1	297
Eastleigh	298	2	300	315	1	316	341	-	341	492	6	498	516	6	522
Edinburgh	327	-	327	348	-	348	353	-	353	288	1	289	287	3	290
Glasgow	250	-	250	253	-	253	256	-	256	379	-	379	396	-	396
Hitchin	342	1	343	358	1	359	363	-	363	363	-	363	388	-	388
Ipswich	405	-	405	420	-	420	424	-	424	428	-	428	447	-	447
Leeds	309	2	311	309	1	310	305	-	305	305	-	305	313	-	313
Liverpool	346	-	346	353	-	353	348	1	349	338	2	340	333	1	334
London Bridge	294	1	295	285	-	285	290	1	291	302	-	302	308	-	308
London Euston	322	-	322	315	-	315	292	-	292	325	-	325	330	-	330
Manchester	447	3	450	447	1	448	455	-	455	460	-	460	464	1	465
Motherwell	402	-	402	413	-	413	409	-	409	418	-	418	457	-	457
Newcastle	383	-	383	382	-	382	380	-	380	376	-	376	383	-	383
Orpington	260	-	260	247	-	247	248	-	248	248	-	248	243	-	243
Perth	216	-	216	221	-	221	230	-	230	237	1	238	245	-	245
Plymouth	314	1	315	333	-	333	273	-	273	279	1	280	294	1	295
Preston	271	2	273	273	-	273	278	-	278	270	-	270	270	-	270
Reading	331	5	336	350	6	356	328	4	332	360	4	364	406	2	408
Romford	426	4	430	448	2	450	453	1	454	468	1	469	477	-	477
Saltley	328	-	328	348	-	348	348	-	348	356	-	356	359	-	359
Sandwell & Dudley	304	3	307	312	4	316	322	1	323	324	1	325	320	-	320
Sheffield	317	1	318	312	-	312	300	1	301	302	1	303	309	-	309
Shrewsbury	259	-	259	270	-	270	291	-	291	305	-	305	314	-	314
Stafford	325	2	327	322	1	323	326	1	327	322	1	323	319	-	319
Swindon	256	2	258	306	1	307	298	-	298	335	-	335	365	-	365
Tottenham	428	1	429	452	1	453	459	3	462	471	1	472	475	1	476
Warrington	343	-	343	341	-	341	343	-	343	339	1	340	337	1	338
Woking	380	2	382	390	6	396	359	-	359	-	-	-	-	-	-
York	372	2	374	381	2	383	385	1	386	361	1	362	367	-	367
Centrally managed															
Route HQ	2,172	142	2,314	2,093	142	2,235	3,745	154	3,899	3,529	112	3,641	3,345	115	3,460
Other HQ	623	119	742	959	122	1,081	1,019	85	1,104	1,047	74	1,121	1,081	52	1,133
Total network maintenance	**15,894**	**301**	**16,195**	**16,437**	**297**	**16,734**	**17,960**	**255**	**18,215**	**18,151**	**210**	**18,361**	**18,390**	**185**	**18,575**

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

Notes:

(1) This statement refers to the average heading during the year.

(2) This statement records the full-time equivalent staff rather than the total number of employees.

(3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required. In addition, extra staff have been recruited as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake.

(2) Total depots headcount has increased since the previous year. This is mostly due to increases in electrification resources as more of the network becomes electrified and so requires additional resource to operate optimally. This is also shown in Statement 8b which shows the increase in this category. In addition, extra staff have been recruited as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake. The increase is compounded by a general trend of more responsibilities moving to depots to allow more responsive teams and better management of local issues. This is also shown by the corresponding decrease in Route HQ staff. Notably movements in depot headcount this year include:

   a. Ashford – headcount has increased mainly due to the transfer of Telecoms maintenance teams from Route HQ to this depot. This can be seen in the reduction of Route HQ headcount compared to the previous year.

   b. Reading/ Swindon - these depots on the Western route all have higher headcount than in 2017/18. This is due to continued recruitment programmes to manage the new electrified assets in this route.

   c. Cardiff – headcount in this depot has increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme and additional apprentice recruitment.

   d. Motherwell – headcount has increased this year compared to earlier years which is largely due to increased resource to cover new overhead line electrification assets, improve resilience and grow off-track capability ahead of the control period 6 commencing.

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

(3) In addition, to the above, other notable depot headcount movements earlier on the control period include:

   a. Glasgow/ Edinburgh - headcount in the Glasgow depot is perceptibly higher in 2017/18 compared to previous years. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the headcount in the Edinburgh depot. The impact of this reorganisation is also shown in Statement 8c, which shows the h maintenance cost between these depots as staff transfer.

   b. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the headcount for Woking depot in 2017/18 following the closure of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The reduction in headcount arising from the Woking depot closure is mostly offset by increased headcount in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8c, which shows the maintenance cost movements between these depots as staff transfer.

   c. Derby – in 2017/18 parts of the organisational structure have been reclassified as Other HQ, including the operations around the Lincoln and Sleaford area, which accounts for the increase in headcount compared to the earlier years of the control period.

(4) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is more than offset by increases in the headcount within depots.

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

In £m 2018-19 prices unless stated

Notes:

(1) These costs only include direct costs

(2) No PR13 comparison has been provided by the ORR for this schedule

(3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

(1) Overall maintenance costs are higher than the previous year. This is mainly a result of Network Rail increasing its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6.

(2) Total depots costs this year are in line with 2017/18.

(3) Notable changes earlier in the control period are set out below:

   a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the costs for Woking depot in 2017/18 compared to earlier years of the control period following the closure of the depot in 2016/17. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The savings made from the Woking depot closure is mostly offset by increased costs in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

   b. Glasgow/ Edinburgh - costs in the Glasgow depot are higher in 2017/18 compared to earlier years of the control period. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the costs attributed to the Edinburgh depot and the Other category which have been largely offset by increases in HQ Managed Activities. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

   c. Reading - this depot has higher costs in 2017/18 compared to earlier years of the control period. This is due to new electrification teams recruited to manage the new electrified assets in the Western route.

   d. Cardiff – costs in this depot have increased in 2017/18 which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.

(4) HQ managed activities – costs are higher than the previous year, with most of the increase in the Scotland route. This year, the Scotland route reinvested some of the savings made in earlier years in the control period across the business as a whole to fund improvements in the network to help performance and put programmes in place to drive efficiencies in control period 6, notably vegetation management strategies.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	910	694	(216)	4,803	3,854	(949)	788
Signalling	720	527	(193)	3,434	3,664	230	702
Civils	415	441	26	2,723	2,424	(299)	416
Buildings	249	143	(106)	911	868	(43)	83
Electrical power and fixed plant	264	141	(123)	934	1,040	106	165
Telecoms	73	50	(23)	349	415	66	53
Wheeled plant and machinery	108	62	(46)	423	618	195	64
Information technology	114	82	(32)	604	451	(153)	76
Property	17	22	5	99	131	32	16
Other renewals	212	375	163	901	565	(336)	127
Total renewals expenditure	**3,082**	**2,537**	**(545)**	**15,181**	**14,030**	**(1,151)**	**2,490**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected reflecting the trend of the control period overall. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £1.2bn higher than the determination which includes £0.4bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), £4.8bn of financial underperformance and £4.0bn of net deferral of activity. Investment is higher than the previous year with increases across most asset categories as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

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

In £m 2018-19 prices unless stated

(2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are lower than the regulatory assumption across most categories. Whilst Plain Line is slightly ahead, High Output volumes are only around half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. Switches & Crossings activity has been over 20 per cent less than planned for the control period mainly due to higher like-for-like costs necessitating deferral of activity to remain within the funding constraints of the control period. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings but also in High Output where productivity improvements helped reduce average unit costs. This year also saw increases in drainage and fencing works as well as recognition of costs of implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like-for-like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals. Some notable examples include deferral of ECTS work between Reading and Paddington, Newport to Shrewsbury upgrades and Colchester area replacements. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are slightly higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on schemes at Angerstein, Hither Green and in Anglia accounted for an increase of over £50m, but these were offset by a reduction of over £60m arising from works at Birmingham New Street phase 6, Polmadie & Rutherglen and Bristol. This year there was also additional ETMS costs and Minor works intervention costs.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was lower than the regulator anticipated mitigating some of the additional investment undertaken in the earlier years of the control period. This year higher underlying costs have been more than offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. There are variances in expenditure between the various categories of activity. This is to be expected as the regulator's assumption for control period 6 were based largely on a hypothetical assessment of the required workbank using asset condition and data models. In reality, the actual composition of activity was likely to be different based on updated asset management and performance data. The most notable category of underspend in in Structures other where the assumed costs per the determination are largely included within the appropriate heading (thus increasing costs in these categories) to provide greater clarity of the underlying costs of the organisation. There has also been an underspend in Underbridges, but this is proportionately smaller, at around 5 per cent of the regulatory expectation. There has been additional expenditure in Other assets, which includes emergency works required following severe damage caused to Dover sea wall. Spend is in line with the previous year, with lower Overbridges investment being offset by higher Earthworks costs.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of activity deferred from earlier years of the control period. Investment in the control period is higher than the regulator expected. However, this is due to higher like-for-like expenditure more than offsetting deferrals. The higher like-for-like costs during the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Across the Buildings portfolio some categories have spent less than the determination. This is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street and Birmingham New Street as funding has investment at Franchised Stations has been prioritised. Expenditure has also been lower for Depot plant due to funding being redirected. Instead, alternative solutions such as increased maintenance, have been enacted to maintain plant capabilities. As noted above, there has been additional investment in Franchised stations this control period which includes a major investment programme across Kent and Sussex in 2018/19, incorporating car park, customer toilet and suicide prevention improvements. Investment in MDUs has been higher than the regulator expected this control period, but this has been partly offset by lower MDU costs included within the Property heading. Expenditure is higher than the previous year mainly due to the aforementioned Franchised stations programme in Kent and Sussex routes undertaken this year).

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year offsetting some of the underspends from earlier in the control period. Whilst expenditure across the control period has been 10 per cent less than the regulator assumed, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower expenditure in the control period is due to delays across most of the portfolio The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend meaning that the programme is now planned to continue into control period 6. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. DC distribution has been notably lower than the regulator's assumption which is concentrated in Kent due to a reprofiling of the whole investment strategy in that route. These cost reductions were partly offset by additional investment in London North East route where extra spend was undertaken to improve resilience on the East Coast Main Line).

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in this area had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed. There has been some minor telecoms financial underperformance this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year as predicted in last year's Regulatory Financial Statements with the most notable increase in SISS to offset some of the underspend earlier in the control period. As well as the aforementioned SISS projects other notable investment this year included cyclical licence renewals, GSM-R works, installation of CCTV to facilitate driver only operated rolling stock and cab radio interference resistance.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure in the year was higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles where expenditure was around £100m less than the determination across CP5. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption in the current year. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. Costs are in line with the previous year.

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

In £m 2018-19 prices unless stated

(11) Other renewals includes the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. As planned, investment was higher this year compared to 2017/18 as more projects with sound businesses cases were identified and delivered. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, expenditure this year was higher than the regulator assumed, partially offsetting the lower spend levels in earlier years of the control period. Overall, expenditure in the control period was lower than the regulator planned due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Most of the investment this year was in Wessex and Sussex routes where large safety improvement programmes were implemented.

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

In £m 2018-19 prices unless stated

d. Small plant – expenditure is the year was higher than the regulator's determination as some of the underspend from earlier years of the control period was caught up. Costs in the control period were lower than the regulatory assumption which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. These savings largely arose from prioritising investment of the available funds on front line activity. As Statement 5 demonstrates, the like-for-like costs for renewals were higher the regulator assumed, meaning that additional funding had to be sought from elsewhere in the company's plans. Also, this fund is used to procure many small, bespoke pieces of equipment so items are only purchased if there is a suitable option available, supported by a robust business case. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway which has helped increase the expenditure this year compared to the previous year. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

e. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

f. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. However, the ORR baselines suggested a net £4m deferral in the control period. No actual expenditure has been reported against this category.

g. Engineering innovation fund – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

h. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Almost all of the expenditure in the current year is on electrification programmes. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as more of the schemes that were rolled over from CP4 are completed.

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

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i. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network in the South East. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. In addition, the current year includes investment to improve the resilience of the Thameslink line following commitments made by DfT and Network Rail to improve performance on this part of the network in light of the devasting impact that industrial action had on passengers earlier in the control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink resilience programme.

j. West Coast – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	299	247	(52)	1,655	1,330	(325)
High output renewal	115	123	8	903	623	(280)
Plain line refurbishment	67	31	(36)	333	156	(177)
S&C renewal	186	136	(50)	930	834	(96)
S&C refurbishment	54	48	(6)	240	235	(5)
Track non-volume	37	41	4	221	308	87
Off track	152	68	(84)	521	368	(153)
Total track	**910**	**694**	**(216)**	**4,803**	**3,854**	**(949)**
Signalling						
Full conventional resignalling	281	55	(226)	1,463	926	(537)
Modular resignalling	2	17	15	72	164	92
ERTMS resignalling	15	127	112	66	309	243
Partial conventional resignalling	110	109	(1)	550	822	272
Targeted component renewal	16	22	6	43	127	84
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	45	11	(34)	124	57	(67)
Operating strategy other capital expenditure	27	-	(27)	222	175	(47)
Level crossings	70	80	10	272	487	215
Minor works	135	68	(67)	543	395	(148)
Centrally managed costs	19	38	19	79	202	123
Other	-	-	-	-	-	-
Total signalling	**720**	**527**	**(193)**	**3,434**	**3,664**	**230**
Civils						
Underbridges	155	201	46	1,025	1,075	50
Overbridges	41	30	(11)	285	171	(114)
Bridgeguard 3	5	-	(5)	40	-	(40)
Major structures	13	16	3	122	88	(34)
Tunnels	21	30	9	124	155	31
Other assets	44	38	(6)	299	224	(75)
Structures other	14	32	18	66	180	114
Earthworks	122	94	(28)	761	531	(230)
Other	-	-	-	1	-	(1)
Total civils	**415**	**441**	**26**	**2,723**	**2,424**	**(299)**
Buildings						
Managed stations	44	25	(19)	120	183	63
Franchised stations	152	96	(56)	579	537	(42)
Light maint depots	10	7	(3)	72	44	(28)
Depot plant	2	3	1	12	41	29
Lineside buildings	14	6	(8)	59	23	(36)
MDU buildings	27	5	(22)	64	32	(32)
NDS depots	-	1	1	3	8	5
Other	-	-	-	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	**249**	**143**	**(106)**	**911**	**868**	**(43)**

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Electrical power and fixed plant						
AC distribution	18	2	(16)	26	44	18
Overhead Line	75	28	(47)	256	204	(52)
DC distribution	19	29	10	143	209	66
Conductor rail	6	8	2	46	60	14
SCADA	20	6	(14)	48	62	14
Energy efficiency	-	2	2	5	13	8
System capability / capacity	3	3	-	21	34	13
Other electrical power	47	19	(28)	87	88	1
Fixed plant	76	44	(32)	302	326	24
Total electrical power and plant	**264**	**141**	**(123)**	**934**	**1,040**	**106**
Telecoms						
Operational communications	12	15	3	39	60	21
Network	6	12	6	35	81	46
SISS	21	15	(6)	56	126	70
Projects and other	4	5	1	31	78	47
Non-route capital expenditure	30	3	(27)	188	70	(118)
Total telecoms	73	**50**	**(23)**	**349**	**415**	**66**
Wheeled plant and machinery						
High output	18	4	(14)	121	135	14
Incident response	-	-	-	-	8	8
Infrastructure monitoring	3	5	2	16	26	10
Intervention	10	5	(5)	83	139	56
Materials delivery	5	1	(4)	53	13	(40)
On track plant	61	17	(44)	99	93	(6)
Seasonal	1	2	1	5	48	43
Locomotives	1	2	1	1	2	1
Fleet support plant	7	6	(1)	7	30	23
Road vehicles	2	17	15	20	121	101
S&C delivery	-	3	3	18	3	(15)
Total wheeled plant and machinery	**108**	**62**	**(46)**	**423**	**618**	**195**
Information Technology						
IM delivered renewals	111	72	(39)	564	401	(163)
Traffic management	3	10	7	40	50	10
Total Information technology	**114**	**82**	**(32)**	**604**	**451**	**(153)**
Property						
MDUs/offices	12	15	3	66	94	28
Commercial estate	5	7	2	33	37	4
Corporate services	-	-	-	-	-	-
Total property	**17**	**22**	**5**	**99**	**131**	**32**
Other renewals						
Asset information strategy	23	8	(15)	183	200	17
Intelligent infrastructure	37	25	(12)	75	109	34
Faster isolations	84	36	(48)	166	189	23
LOWS	7	2	(5)	14	12	(2)
Small plant	26	12	(14)	42	59	17
Research and development	11	-	(11)	18	-	(18)
Phasing overlay	-	292	292	-	(4)	(4)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	7	-	(7)	358	-	(358)
Other	17	-	(17)	45	-	(45)
West Coast	-	-	-	-	-	-
Total other renewals	**212**	**375**	**163**	**901**	**565**	**(336)**
Total renewals	**3,082**	**2,537**	**(545)**	**15,181**	**14,030**	**(1,151)**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected reflecting the trend of the control period overall. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £1.2bn higher than the determination which includes £0.4bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), £4.8bn of financial underperformance and £4.0bn of net deferral of activity. Investment is higher than the previous year with increases across most asset categories as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

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

In £m 2018-19 prices unless stated

(2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are expected to be lower than the regulatory assumption across most. Whilst Plain Line is slightly ahead, High Output volumes are only around half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. Switches & Crossings activity has been over 20 per cent less than planned for the control period mainly due to higher like-for-like costs necessitating deferral of activity to remain within the funding constraints of the control period. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings but also in High Output where productivity improvements helped reduce average unit costs. This year also saw increases in drainage and fencing works as well as recognition of costs of implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals. Some notable examples include deferral of ECTS work between Reading and Paddington, Newport to Shrewsbury upgrades and Colchester area replacements. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are slightly higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on schemes at Angerstein, Hither Green and in Anglia accounted for an increase of over £50m, but these were offset by a reduction of over £60m arising from works at Birmingham New Street phase 6, Polmadie & Rutherglen and Bristol. This year there was also additional ETMS costs and Minor works intervention costs.

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

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(4) Civils – expenditure in the year was lower than the regulator anticipated mitigating some of the additional investment undertaken in the earlier years of the control period. This year higher underlying costs have been more than offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. There are variances in expenditure between the various categories of activity. This is to be expected as the regulator's assumption for control period 6 were based largely on a hypothetical assessment of the required workbank using asset condition and data models. In reality, the actual composition of activity was likely to be different based on updated asset management and performance data. The most notable category of underspend in in Structures other where the assumed costs per the determination are largely included within the appropriate heading (thus increasing costs in these categories) to provide greater clarity of the underlying costs of the organisation. There has also been an underspend in Underbridges, but this is proportionately smaller, at around 5 per cent of the regulatory expectation. There has been additional expenditure in Other assets, which includes emergency works required following severe damage caused to Dover sea wall. Spend is in line with the previous year, with lower Overbridges investment being offset by higher Earthworks costs.

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

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(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of activity deferred from earlier years of the control period. Investment in the control period is higher than the regulator expected. However, this is due to higher like-for-like expenditure more than offsetting deferrals. The higher like-for-like costs during the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Across the Buildings portfolio some categories have spent less than the determination. This is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street and Birmingham New Street as funding has investment at Franchised Stations has been prioritised. Expenditure has also been lower for Depot plant due to funding being redirected. Instead, alternative solutions such as increased maintenance, have been enacted to maintain plant capabilities. As noted above, there has been additional investment in Franchised stations this control period which includes a major investment programme across Kent and Sussex in 2018/19, incorporating car park, customer toilet and suicide prevention improvements. Investment in MDUs has been higher than the regulator expected this control period, but this has been partly offset by lower MDU costs included within the Property heading. Expenditure is higher than the previous year mainly due to the aforementioned Franchised stations programme in Kent and Sussex routes undertaken this year.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator’s assumption this year offsetting some of the underspends from earlier in the control period. Whilst expenditure across the control period has been 10 per cent less than the regulator assumed, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator’s determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower expenditure in the control period is due to delays across most of the portfolio The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend meaning that the programme is now planned to continue into control period 6. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. DC distribution has been notably lower than the regulator’s assumption which is concentrated in Kent due to a reprofiling of the whole investment strategy in that route. These cost reductions were partly offset by additional investment in London North East route where extra spend was undertaken to improve resilience on the East Coast Main Line.

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in this area had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed. There has been some minor telecoms financial underperformance this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year as predicted in last year’s Regulatory Financial Statements with the most notable increase in SISS to offset some of the underspend earlier in the control period. As well as the aforementioned SISS projects other notable investment this year included cyclical licence renewals, GSM-R works, installation of CCTV to facilitate driver only operated rolling stock and cab radio interference resistance.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure in the year was higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles where expenditure was around £100m less than the determination across CP5. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption in the current year. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. Costs are in line with the previous year.

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

In £m 2018-19 prices unless stated

(11)Other renewals

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. As planned, investment was higher this year compared to 2017/18 as more projects with sound businesses cases were identified and delivered. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, expenditure this year was higher than the regulator assumed, partially offsetting the lower spend levels in earlier years of the control period. Overall, expenditure in the control period was lower than the regulator planned due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Most of the investment this year was in Wessex and Sussex routes where large safety improvement programmes were implemented.

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

In £m 2018-19 prices unless stated

d. Small plant – expenditure is the year was higher than the regulator's determination as some of the underspend from earlier years of the control period was caught up. Costs in the control period were lower than the regulatory assumption which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. These savings largely arose from prioritising investment of the available funds on front line activity. As Statement 5 demonstrates, the like-for-like costs for renewals were higher the regulator assumed, meaning that additional funding had to be sought from elsewhere in the company's plans. Also, this fund is used to procure many small, bespoke pieces of equipment so items are only purchased if there is a suitable option available, supported by a robust business case. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway which has helped increase the expenditure this year compared to the previous year. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

k. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. However, the ORR baselines suggested a net £4m deferral in the control period. No actual expenditure has been reported against this category.

f. Engineering innovation fund – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

g. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Almost all of the expenditure in the current year is on electrification programmes. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as more of the schemes that were rolled over from CP4 are completed.

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

In £m 2018-19 prices unless stated

h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network in the South East. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. In addition, the current year includes investment to improve the resilience of the Thameslink line following commitments made by DfT and Network Rail to improve performance on this part of the network in light of the devasting impact that industrial action had on passengers earlier in the control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink resilience programme.

i. West Coast – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

Statement 10: Other information, Great Britain

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	335	231	(104)	1,297	1,203	(94)	227
Access charge supplement Income	(215)	(217)	(2)	(1,131)	(1,132)	(1)	(215)
Net (income)/cost	**120**	**14**	**(106)**	**166**	**71**	**(95)**	**12**
Schedule 8							
Performance element income	(14)	-	14	(79)	-	79	(12)
Performance element costs	333	5	(328)	1,062	23	(1,039)	238
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**319**	**5**	**(314)**	**983**	**23**	**(960)**	**226**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(171)	(183)	(29)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	20	53	29
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(2)	(5)	-
Reporters fees	(2)	(10)	(2)
Other industry costs	2	9	2
Network Rail HS1	5	17	4
Difference in CP4 opex memo	-	(9)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(148)**	**(128)**	**4**

C) Network Rail's compliance with the limits set in the licence	Annual 2018-19	Annual Limit	Cumulative Actual	Cumulative Limit	Actual FY15 to FY16	Limit FY15 to FY16	Actual FY17 to FY19	Limit FY17 to FY19
Licence condition								
Turnover (per annum)	22	198						
Investment (any point in time)			138	297				
Specific Consents								
Property development	-	50						
Property (E&W)					120	230	9	170
Property (Scotland)					0	0	0	0

D) Net income / (costs) from alliances:	2018-19	Cumulative	2017-18
Payment from South West Trains	-	2	-
Total alliance income	**-**	**2**	**-**
Payment to South West Trains	-	(2)	-
Total alliance costs	**-**	**(2)**	**-**
Net alliance income / (cost)	**-**	**-**	**-**

E) Workforce information

(Headcount)	Male Permanent Full time	Male Permanent Part time	Male Temporary Full time	Male Temporary Part time	Female Permanent Full time	Female Permanent Part time	Female Temporary Full time	Female Temporary Part time	Total
66 and over	366	27	2	-	24	6	-	-	425
61-65	1,852	46	2	-	153	21	3	1	2,078
56-60	3,897	20	4	3	359	23	10	1	4,317
51-55	4,896	17	11	1	629	38	6	1	5,599
46-50	4,926	9	15	1	805	62	17	-	5,835
41-45	3,611	7	16	1	770	114	17	-	4,536
36-40	3,592	12	22	-	978	156	21	3	4,784
31-35	3,809	8	40	-	951	98	20	-	4,926
26-30	3,407	1	44	-	936	24	41	1	4,454
21-25	2,107	6	66	-	516	2	30	-	2,727
20 and under	354	-	23	-	68	1	13	-	459
Total staff employed (Headcount)	**32,817**	**153**	**245**	**6**	**6,189**	**545**	**178**	**7**	**40,140**
of which:									
train drivers	-	-	-	-	-	-	-	-	**-**
apprentices	623	-	-	-	90	1	-	-	**714**
Agency staff / Contingent Labour / Consultants	-	-	752	4	-	-	212	-	**968**
of which apprentices	-	-	-	-	-	-	-	-	**-**

Statement 10: Other information, Great Britain - continued

In £m 2018-19 prices unless stated

(FTE)	Headcount Male	Female	Total	Full time equivalent Male	Female	Total
Board executive	15	5	20	15	5	20
Executive director / director	59	13	72	59	13	72
Bands 1	369	74	443	369	74	443
Bands 2	1,278	351	1,629	1,275	346	1,621
Bands 3	3,026	1,073	4,099	3,010	1,054	4,064
Bands 4	3,878	1,658	5,536	3,869	1,634	5,503
Signallers	4,109	334	4,443	4,104	332	4,436
Electrical control operators	166	3	169	166	3	169
Maintenance	16,413	314	16,727	16,409	308	16,717
Controllers	370	52	422	369	52	421
Bands 5-8	3,530	3,042	6,572	3,517	2,948	6,465
Other	8	-	8	8	-	8
Total permanent staff	**33,221**	**6,919**	**40,140**	**33,170**	**6,769**	**39,939**
Agency staff / Contingent Labour / Consultants	756	212	968	754	212	966
Total staff (FTE)	**33,977**	**7,131**	**41,108**	**33,924**	**6,981**	**40,905**

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	**1**	-	-	**1**
Executive director / director	15	1	4	-	-	3	**23**	-	-	**23**
Bands 1	45	4	11	-	4	7	**71**	-	-	**71**
Bands 2	116	11	17	-	10	17	**171**	-	-	**171**
Bands 3	212	8	21	1	16	27	**285**	-	-	**285**
Bands 4	227	10	9	1	16	27	**290**	-	-	**290**
Signallers	176	10	3	57	12	28	**286**	-	-	**286**
Electrical control operators	9	-	-	5	1	2	**17**	-	-	**17**
Maintenance	557	49	13	186	40	89	**934**	-	-	**934**
Controllers	24	1	-	7	2	4	**38**	-	-	**38**
Bands 5-8	174	7	5	6	10	18	**220**	-	-	**220**
Other	1	-	1	-	-	-	**2**	-	-	**2**
Total Paybill	**1,557**	**101**	**84**	**263**	**111**	**222**	**2,338**	**-**	**-**	**2,338**
Agency staff / Contingent Labour / Consultants	-	-	-	-	-	-	-	71	-	71
Total Staff Costs	**1,557**	**101**	**84**	**263**	**111**	**222**	**2,338**	**71**	**-**	**2,409**

F) Staff costs information

	Male	Female	Total
Salary	1,310	247	1,557
Allowances	91	11	101
Performance related bonus	69	16	84
Overtime	256	6	263
Employer pension contribution	94	17	111
Employer NI contribution	192	29	222
Total Paybill	**2,012**	**326**	**2,338**
Agency staff / Contingent Labour / Consultants			71
Total Staff Costs			**2,409**

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	468,000	11
Number of employees paid in excess of highest paid director	-	n/a
Median remuneration of workforce	44,027	-

Remuneration ranged from £0 to £468,000 (2017-18 £0 to £746,450)

G) Reporter information

	2018-19	2017-18
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.4	0.4
Fees payable to the company's auditors for other audit related services:	0.0	0.0
The audit of the company's subsidiaries*	0.1	0.2
Regulatory accounts audit and interim review	0.1	0.1
Total amounts payable to auditors	**0.6**	**0.7**

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

Expenditure with Independent Reporters	2018-19 Independent Reporter Expenditure (in year)*	Total in Year Expenditure
Ove Arup & Partners**	0.5	21.7
The Nichols Group	0.6	0.8
Asset Management Consulting Ltd	0.1	0.1
Total Expenditure with Independent Reporters	**1.1**	**22.5**

* Based on invoices received in the Financial Year

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

Statement 10: Other information, Great Britain – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator’s assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator’s CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

(7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail’s income (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

(8) The format of the headcount information is determined by ORR through their Regulatory Accounting Guidelines (June 2017). This requires Network Rail to include data split between “Male” and “Female”. Reporting data in this binary manner is not particularly inclusive or representative of the diverse nature of the individuals employed by Network Rail.

(9) The payroll amounts included in parts E&F are taken from Network Rail’s payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting Guidelines (June 2017). Therefore, the values in this statement will not be the same as the staff costs included in Network Rail’s Annual Report and Accounts for the year ended 31 March 2019 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities.

Statement 10: Other information, Great Britain – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. Across the control period the difference to the determination is minimal. This year, the performance element costs are greater than the regulator expected as higher like-for-like costs have been partially offset by deferral of activities requiring possessions. As shown in Statement 5a, the like-for-like costs of schedule 4 possessions have been higher than the regulator assumed in the control period 5 determination. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the 2018/19 result being the main reason. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track – Switches & Crossings and Signalling - Full and partial conventional re-signalling) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs.

Statement 10: Other information, Great Britain – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including additional security staff on the London North West route at known hotspots, increased fencing and working with the Samaritans such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall level of disruption. Compensation payable under the Schedule 8 regime was over £900m higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 10: Other information, Great Britain – continued

In £m 2018-19 prices unless stated

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Traffic growth (both passenger and freight) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. There are a number of relatively smaller items on the opex memorandum at the end of control period 6. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed and there is also income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is added to the Opex memorandum. The control period balance also includes an adjustment for differences between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

(4) In Section e) of this report, the Workforce information sets out the proportion of the workforce based on the binary Male/ Female classification mandated by ORR. This shows that, compared to the previous year, the proportion of Female staff has increased which is in line with Network Rail's commitment to employing a more diverse workforce. This is especially evident amongst Apprentices which notes a large increase in the proportion of Female staff. In addition, as set out in the Staff costs information table, the proportion of staff costs relating to Females has increased at a faster rate than the increase in employment rates, resulting in an increase in average Female staff salaries compared to Male staff salaries year-on-year. There is still much for Network Rail to undertake to meet its diversity objectives, but these represent steps in the right direction.

(5) Section F) also discloses information about the Remuneration ranges in the organisation compared to the previous year. This range shows a significant contraction compared to the previous year. Part of the decrease is due to the CEO role not being filled for the entire fiscal year, hence making the CFO the highest paid director in the organisation in terms of total remuneration received during the year

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

In £m 2018-19 prices unless stated

				2018-19			
Service	**Staff**	**Agency**	**Contractors & consultants**	**Materials**	**Plant**	**Overheads**	**Total cost**
Operations	-	-	-	-	-	-	-
Maintenance	26	1	-	-	-	6	33
Renewals	-	-	-	-	-	-	-
Total	**26**	**1**	**-**	**-**	**-**	**6**	**33**

				Cumulative			
Service	**Staff**	**Agency**	**Contractors & consultants**	**Materials**	**Plant**	**Overheads**	**Total cost**
Operations	-	-	-	-	-	-	-
Maintenance	121	3	-	-	-	33	157
Renewals	-	-	-	-	-	-	-
Total	**121**	**3**	**-**	**-**	**-**	**33**	**157**

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

In £m 2018-19 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. This information is disclosed in line with the requirements of the Regulatory Accounting Guidelines (June 2017).

(2) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Charges levied by Network Rail are broadly in line with the prior year. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, Great Britain

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(57)	(12)	315	313	3.1%	1.61	pence per passenger train mile
Passenger farebox (millions)	(64)	(13)	10,323	10,417	4.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(34)	(7)	20	22	2.5%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(27)	(5)	22,779	24,008	3.2%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(182)**	**(37)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Great Britain – continued

In £m 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the continued structural decline in the freight market and passenger growth which has not been kept up with the ambitious increases assumed in the determination this year.

	Passenger train miles	**Passenger farebox**	**Freight train miles**	**Freight gross tonne miles**	**Total**
2014/15	4	7	-	-	**11**
2015/16	5	10	(3)	(1)	**11**
2016/17	(1)	3	(4)	(3)	**(5)**
2017/18	(7)	(10)	(7)	(5)	**(29)**
2018/19	(12)	(13)	(7)	(5)	**(37)**
Total	**(11)**	**(3)**	**(21)**	**(14)**	**(49)**

Statement 12: Volume incentives, Great Britain – continued

In £m 2018-19 prices unless stated

(2) Passenger train miles in the current year was higher than the previous year, with a growth of around 2.3 per cent as new services were included in the train schedule for passengers. The current year also benefitted from some a suppressed 2017/18 position due to impact of adverse weather (notably Storm Emma) and disruption caused by the delivery of Network Rail's ambitious enhancement programme. However, the regulator assumed growth of 3.1 per cent this year. In addition, Network Rail was below the regulator's expected Passenger train miles figure in 2017/18 meaning achieving the targets in this year was highly unlikely. Over the course of the control period, there is a net volume incentive hit for Passenger train miles as outperformance in earlier years has been offset by slower growth later in CP5. The 2016/17 results were adversely impacted from widespread industrial action in that year. The control period position has resulted in financial underperformance being recognised (refer to Statement 5a).

(3) Passenger farebox in the year was lower than the target, reflecting growth in passenger numbers being lower than the regulatory assumption. For the first three years of the control period this had been favourable due to increased income from passengers and higher train usage. Passenger farebox information is supplied by ORR.

(4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected, and this leaves Network Rail facing a penalty under this mechanism. The determination assumed that growth during the control period would have been over 12 per cent. However, the deterioration in demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security and lower demand) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media in recent years has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism requires. There is notable shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.

(5) Freight gross tonne miles has increased by around 3.5 per cent compared to the previous year, which is higher than the regulatory assumption for growth in 2018/19. However, as noted in the previous year's regulatory financial statements, traffic was already significantly below the regulatory target, meaning that there is still a penalty under this measure in the current year. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has a significant gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	456	292	491	914	537	453	270	586	1,076	545
	High Output Renewal	km	121	75	114	172	663	102	91	262	314	834
	Plain line Refurbishment	km	359	58	103	641	161	329	54	122	836	146
	S&C Renewal/Refurbishment	point ends	937	171	289	1,655	175	711	131	278	1,795	155
	Track Drainage	lm	111,945	38	79	273,183	0	145,619	34	92	345,292	0
	Fencing	km	530	21	95	2,317	41	465	17	98	2,330	42
	Slab Track	km	-	7	28	-	-	1	4	10	1	10,000
	Off track	km/No.	315	13	29	994	29	204	13	40	993	40
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**675**	**1,228**	**-**	**-**	**-**	**614**	**1,488**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	1,450	173	637	1,695	376	207	28	126	350	360
	Modular Resignalling	SEU	-	-	-	-	-	95	20	34	95	358
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	703	77	383	1,074	357	151	38	89	303	294
	Targeted Component Renewal	SEU	63	13	19	63	302	13	3	4	13	308
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	32	42	92	38	2,421	14	21	44	17	2,588
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**305**	**1,131**	**-**	**-**	**-**	**110**	**297**	**-**	**-**
Civils	Underbridges	m^2	59,200	107	283	135,093	2	74,287	95	273	156,396	2
	Overbridges (incl BG3)	m^2	11,216	30	77	21,224	4	12,837	27	66	16,986	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	19,582	11	27	32,203	1	12,250	12	30	41,007	1
	Culverts	m^2	3,794	5	11	4,848	2	2,385	6	13	4,997	3
	Footbridges	m^2	3,411	12	23	9,459	2	2,028	7	22	4,531	5
	Coastal & Estuarial Defences	m	2,262	2	5	4,069	1	5,857	4	9	7,101	1
	Retaining Walls	m^2	3,444	3	5	4,465	1	2,385	7	10	2,599	4
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	2,397	71	140	6,143	23	5,292	78	200	10,323	19
	EW Drainage	m	88,190	10	17	127,610	0	117,085	13	28	181,067	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**251**	**588**	**-**	**-**	**-**	**249**	**651**	**-**	**-**
Buildings	Buildings (MS)	m^2	3,780	2	2	4,152	0	854	-	1	956	1
	Platforms (MS)		1,500	1	1	1,500	1	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	3,503	-	1	12,169	0	2,826	1	1	10,413	0
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	122,989	2	8	185,197	0	73,725	5	8	195,951	0
	Buildings (FS)	m^2	3,404	2	2	4,160	0	9,578	3	5	11,242	0
	Platforms (FS)	m^2	38,313	9	12	42,505	0	7,889	3	7	12,455	1
	Canopies (FS)	m^2	19,315	8	10	21,515	0	2,000	2	8	12,079	1
	Train sheds (FS)	m^2	9,112	4	6	10,462	1	10,837	3	13	10,837	1
	Footbridges (FS)	m^2	1,276	5	14	3,992	4	1,868	4	20	5,698	4
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		81,886	5	10	93,192	0	47,538	3	10	88,274	0
	Light Maintenance Depots	m^2	52,233	3	4	58,641	0	81,305	9	12	88,408	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	23,377	4	8	36,176	0	9,475	1	6	26,402	0
	MDU Buildings	m^2	36,530	5	10	50,200	0	22,786	2	7	39,600	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**50**	**88**	**-**	**-**	**-**	**36**	**98**	**-**	**-**

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

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
			Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	64	11	73	221	330	48	13	63	169	373
	Mid-life refurbishment	Wire runs	1	6	12	6	2,000	-	-	-	-	-
	Structure renewals	No.	197	21	55	840	65	232	7	37	874	42
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	44	5	25	147	170	53	5	37	202	183
	HV Switchgear Renewal AC	No.	26	2	5	67	75	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	10	3	9	20	450	22	3	9	35	257
	HV cables DC	km	1	-	2	5	400	1	-	1	4	250
	LV cables DC	km	24	4	21	89	236	38	5	40	128	313
	Transformer Rectifiers DC		1	-	-	1	-	1	-	1	1	1,000
	LV switchgear renewal DC	No.	12	1	1	12	83	1	-	-	1	-
	Protection Relays DC	No.	-	-	-	-	-	22	-	2	64	31
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	41	-	6	163	37	128	2	11	265	42
	Signalling Power Cables	km	190	13	76	388	196	216	9	73	431	169
	Signalling Supply Points	No.	7	2	24	34	706	10	1	6	31	194
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**68**	**309**	**-**	**-**	**-**	**45**	**280**	**-**	**-**
Telecoms	Customer Information Systems	No.	807	12	19	1,514	13	509	2	7	983	7
	Public Address	No.	5,114	-	5	6,300	1	1,325	-	4	3,096	1
	CCTV	No.	205	1	4	948	4	497	-	2	539	4
	Other Surveillance	No.	213	4	7	264	27	31	2	4	164	24
	PABX Concentrator	No. lines	4,592	3	12	14,744	1	4,269	1	2	12,275	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	2	-	1	2	500	17	1	1	17	59
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	8	-	1	8	125
	HMI Small		5	-	-	5	-	5	-	-	5	-
	HMI Large	No.	23	-	1	124	8	30	-	1	101	10
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		12	-	1	49	20	49	-	-	49	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	6	-	-	13	-	21	1	2	44	45
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**20**	**50**	**-**	**-**	**-**	**7**	**24**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - The High Output volumes delivered in the year are slightly higher than the volumes delivered in the prior year. In high output volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The increased volumes tell the story of why the unit cost has decreased. In plain line refurbishment there was an increased in the unit cost in 2018-19 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. It is a similar story with off track as the mix of work between level crossings and longitudinal timbers can massively vary the unit costs.

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

In £m 2018-19 prices unless stated

(3) Signalling – There has been an increase in the unit cost for partial conventional re-signalling in the year. This is due to complicated jobs at Bristol, Derby and Kings Cross which have all driven up the rate. Level crossings are a bespoke job type with similarities between projects being random. The level of work required, and costs can vary depending on the type of level crossing as well as the possession charges which depend on track usage in that area. Therefore, the decrease in unit cost from the prior year holds little information relating to over/under performance

(4) Civils – In the footbridges category there has been a decrease in the unit rate. This was due to the fact that in the current year there was a much higher proportion of preventative work (particularly in LNE) which is a lot cheaper than replacement work. It is a similar story for retaining walls. There has been a much higher proportion of repair work compared to replace work this year which drives down the unit cost. In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole.

(5) Electrical Power and Fixed Plant – There has been a decrease in the unit rate for wiring renewals. There were three projects in the prior year which carried on delivering at a similar unit rate in the current year. However, in the current year there was also a new relatively inexpensive project at Rutherglen in Scotland which has brought down the overall unit rate. There has been an increase in the unit cost of structure renewals in the year. The amount forecast volumes has not change in the three projects in his category however there has been an increase in the anticipated final cost of these projects which thus drives up the unit rate. There has been an increase in the unit rate of HV cables but there was only one project that spanned both years, so the sample size is too small for any meaningful analysis. There has been a dramatic increase in the unit rate of signalling supply points. However, this is primarily due to one large project in LNE that has been going since the previous control period. There were no volumes in the previous year on this project, so the significant costs were not included. However, this year there were volumes on this project which due to its legacy costs has a had a great effect on the until rate.

(6) Telecoms – There was a large increase in the unit rate in the year for Customer Information Screens. This was primarily due to the fact that there was lots of work on the Wessex route in the current year that was expensive and therefore had a particularly high unit rate. There has been a large increase in the unit rates in the DOO CCTV category. However, there was only one project in each year, so the small sample size limits the quality of any analysis. This year there was a renewal on the LNE route which only had 2 volumes and therefore a high unit cost. In the prior year there was a job in Scotland that had more than 8 times as many volumes and therefore a lower unit rate. There has been a decrease in the unit rate of HMI Large. Once again however there was only one project each year meaning that the sample size is so small it makes any analysis meaningless.

Statement 1: Summary regulatory financial performance, England & Wales

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Income							
Grant Income	3,786	3,806	(20)	20,506	20,465	41	4,184
Fixed Income	783	736	47	2,167	2,040	127	374
Variable Income	1,175	1,310	(135)	5,597	5,936	(339)	1,091
Other Single Till Income	2,362	1,042	1,320	5,871	4,667	1,204	971
Opex memorandum account	(14)	-	(14)	2	-	2	-
Total Income	**8,092**	**6,894**	**1,198**	**34,143**	**33,108**	**1,035**	**6,620**
Operating expenditure							
Network operations	633	377	(256)	2,776	2,071	(705)	570
Support costs	417	402	(15)	1,896	2,210	314	366
Traction electricity, industry costs and rates	686	771	85	3,023	3,258	235	613
Network maintenance	1,365	1,010	(355)	6,387	5,390	(997)	1,296
Schedule 4	318	206	(112)	1,180	1,067	(113)	212
Schedule 8	289	5	(284)	927	21	(906)	204
Total operating expenditure	**3,708**	**2,771**	**(937)**	**16,189**	**14,017**	**(2,172)**	**3,261**
Capital expenditure							
Renewals	2,708	2,276	(432)	13,425	12,476	(949)	2,127
PR13 enhancement expenditure	2,482	1,275	(1,207)	14,381	14,369	(12)	2,890
Non PR13 enhancement expenditure	198	-	(198)	800	-	(800)	156
Total capital expenditure	**5,388**	**3,551**	**(1,837)**	**28,606**	**26,845**	**(1,761)**	**5,173**
Other expenditure							
Financing costs	2,095	2,063	(32)	8,781	8,919	138	2,200
Corporation tax (received)/paid	-	3	3	(2)	7	9	-
Total other expenditure	**2,095**	**2,066**	**(29)**	**8,779**	**8,926**	**147**	**2,200**
Total expenditure	**11,191**	**8,388**	**(2,803)**	**53,574**	**49,788**	**(3,786)**	**10,634**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR’s determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) This statement shows that Network Rail’s net expenditure (Total income less Total expenditure) was around £1.6bn higher than the regulatory comparative. This was mostly due to higher investment in the network. This was partly funded by the asset divestment programme undertaken this year which included disposing of a significant section of the commercial estate. In addition, the day-to-day running costs were higher than the regulator expected due to lower than expected efficiencies and higher compensation under train performance mechanisms.

(3) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Network Rail’s revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(4) Income – Fixed income in the year was slightly higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided during CP5 has delivered the favourable income in the control period. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.

(5) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(6) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator’s expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

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

In £m 2018-19 prices unless stated

(7) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected which has offset higher than assumed Business Rates costs. Losses recognised this year are higher than previous years as the industry growth has not matched the regulator's assumptions in the PR13 determination. The variances are set out in more detail in Statement 10.

(8) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Costs are higher than the previous year mainly due to additional commercial claims recognised in the current year. Network Operations costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Support costs are higher than the determination this year as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. Support costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(11) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

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

In £m 2018-19 prices unless stated

(12) Operating expenditure - Schedule 4 costs are higher than the determination as higher average costs of possessions have been compounded by higher levels of renewals activity requiring network possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators to book the possessions necessary to undertake renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are higher than the previous year which reflects higher renewals activity and the aforementioned additional compensation costs from delays in publishing the May timetable. These extra costs have been partly offset by more benign weather. In 2017/18, Storm Emma had a material impact on schedule 4 compensation costs. Schedule 4 costs are discussed in more detail in Statement 10.

(13) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks and the impact of hot weather over the summer months. Schedule 8 costs are discussed in more detail in Statement 10.

(14) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) partially offset by a net deferral of activity. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

(15) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. There were a number of differences between the profile of delivery of individual programmes compared to the original regulatory expectation. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure is lower than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with a higher proportion of investment in projects such as Thameslink, Great Western Electrification Programme and Northern Programmes taking place in the previous year. These variances are set out in more detail in Statement 3.

(16) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network, notably investment in Crossrail projects. These items are set out in more detail in Statement 3.

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

In £m 2018-19 prices unless stated

(17) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are higher than the determination expected due to higher levels of average debt in the year partly offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period were lower than the regulatory target mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments, partly offset by higher levels of average net debt. Costs are slightly lower than the previous year as higher levels of debt have been offset by lower interest costs. Financing costs are set out in more detail in Statement 4.

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

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**53,508**	**51,856**	**1,652**
Indexation to 2017-18 prices	6,579	6,377	202
Opening RAB for the year (2017-18 prices)	**60,087**	**58,233**	**1,854**
Indexation for the year	1,917	1,858	59
Opening RAB (2018-19 prices)	**62,004**	**60,091**	**1,913**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,449	2,276	173
PR13 enhancements	2,442	1,878	564
Non-PR13 enhancements	193	-	193
Total enhancements	2,635	1,878	757
Amortisation	(2,568)	(2,568)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**64,520**	**61,677**	**2,843**

RAB Regulatory financial position - cumulative, England & Wales

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**48,238**	**52,816**	**56,453**	**59,658**	**62,004**	**48,238**
Adjustments for the actual capital expenditure outturn in CP4	1,372	-	-	-	-	1,372
Renewals	2,763	2,799	2,342	1,912	2,449	12,265
PR13 enhancements	2,692	2,963	3,242	2,833	2,442	14,172
Non-PR13 enhancements	116	235	86	170	193	800
Total enhancements	2,808	3,198	3,328	3,003	2,635	14,972
Amortisation	(2,360)	(2,360)	(2,465)	(2,569)	(2,568)	(12,322)
Adjustments for under-delivery of regulatory outputs	(5)	-	-	-	-	(5)
Closing RAB	**52,816**	**56,453**	**59,658**	**62,004**	**64,520**	**64,520**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional enhancement investment, notably under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken. This is partly offset by lower renewals logged up to the RAB than the regulator assumed. Although Statement 9 shows that renewals investment has been higher than the regulator assumed in the first four years of the control period, not all of this expenditure is eligible to be added to the RAB under the Regulatory Accounting Guidelines (June 2017).

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Crossrail, Thameslink and Northern Hub as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**2,597**	**2,604**	**2,549**	**2,447**	**2,276**	**12,473**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	243	-	-	-	-	243
Capitalised financing on CP4 deferrals	5	11	11	13	12	52
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**2,845**	**2,615**	**2,560**	**2,460**	**2,288**	**12,768**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(710)	(574)	(956)	(1,148)	(535)	(3,923)
Capitalised financing on acceleration / (deferrals) of expenditure	(16)	(44)	(79)	(128)	(169)	(436)
Adjustments for efficient overspend	776	963	970	825	926	4,460
Capitalised financing on efficient overspend	17	55	99	143	186	500
25% retention of efficient overspend	(194)	(241)	(242)	(207)	(232)	(1,116)
Capitalised financing on efficient overspend 25% retention	(4)	(13)	(25)	(35)	(46)	(123)
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	40	12	(5)	29	136
Capitalised financing on efficient overspend through spend to save framework	1	4	5	(2)	10	18
Retention of efficient overspend through spend to save framework	(11)	(5)	(1)	8	(6)	(15)
Capitalised financing on efficient overspend through spend to save framwork retention	-	(1)	(1)	1	(2)	(3)
Other adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**2,763**	**2,799**	**2,342**	**1,912**	**2,449**	**12,265**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(3)	(11)	(11)	9	10	(6)
Adjustment for 25% retention of efficient overspend	206	247	246	200	238	1,137
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	-	-	12	6	11	29
Total actual renewals expenditure (see statement 9)	**2,966**	**3,035**	**2,589**	**2,127**	**2,708**	**13,425**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**2,698**	**2,936**	**2,857**	**2,916**	**1,878**	**13,285**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	217	(217)	-	-	-	-
Capitalised financing on CP4 deferrals	4	5	-	-	-	9
Baseline adjustments	-	295	973	535	(601)	1,202
Capitalised financing on Baseline adjustments	-	6	34	68	69	177
Adjustments to DfT funding	(171)	-	-	-	-	(171)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(8)	(9)	(35)
Other adjustments	28	27	-	-	-	55
Capitalised financing on other adjustments	1	2	2	2	3	10
Adjusted PR13 determination (enhancements)	**2,773**	**3,047**	**3,859**	**3,513**	**1,340**	**14,532**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(205)	(180)	(822)	(863)	868	(1,202)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(13)	(34)	(73)	(76)	(200)
Adjustments for efficient overspend / (underspend)	79	(31)	97	110	148	403
Capitalised financing on efficient overspend / (underspend)	2	3	4	9	16	34
25% retention of efficient overspend / (underspend)	(20)	7	(25)	(27)	(37)	(102)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(1)	(2)	(4)	(8)
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	73	173	183	191	188	808
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(43)	(30)	(44)	(27)	(155)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	19	26	62
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**2,692**	**2,963**	**3,242**	**2,833**	**2,442**	**14,172**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	132	226	69	156	199	782
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(18)	-	-	(8)	(36)	(62)
Capitalised financing on non-PR13 enhancements expenditure	2	9	17	22	30	80
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)	**116**	**235**	**86**	**170**	**193**	**800**
Total enhancements (added to the RAB - see statement 2a)	**2,808**	**3,198**	**3,328**	**3,003**	**2,635**	**14,972**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(2)	(10)	(25)	(37)	(55)	(129)
Adjustment for 25% retention of efficient overspend	50	35	54	79	100	318
Other adjustments	20	10	(9)	-	-	21
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	518	325	460	758	624	2,685
Other adjustments	-	(1)	-	-	-	(1)
Total actual enhancement expenditure (see statement 3)	**3,394**	**3,557**	**3,808**	**3,803**	**3,304**	**17,866**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail’s investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes.

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

In £m 2018-19 prices unless stated

(11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB. In addition, in 2017/18 a further capital grant of £0.3bn was received from the DfT as a contribution to Network Rail's enhancement programme. This has resulted in a reduction in the RAB with a corresponding increase in PAYGO enhancement expenditure.

(12) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.

(13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Northern Hub as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

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

In £m 2018-19 prices unless stated

(18) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planed level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 was reversed in 2015/16 so that there is no impact on the RAB for the control period. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous. No expenditure in this category occurred in the current year.

(19) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.

(20) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

(21) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this category covers expenditure where investment is not eligible for RAB addition. The current year includes Network Rail funded investment in elements of HS2 and Northern Powerhouse programmes as well as a number of smaller discretionary schemes over and above the Hendy projects. As these parts of the overall programme were not funded by either a third party or eligible for RAB addition, the expenditure has been recognised as financial underperformance (refer to Statement 5). Expenditure in earlier years of the control period mainly relates to Network Rail contributions to the Gospel Oak to Barking electrification programme and Manchester Victoria station redevelopment. Expenditure on these programmes was funded through other sources (such as regulator's investment framework and third-party investment) but, in both instances, the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5).

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	61	(12)	(73)	141	136	(5)
Stations - National Station Improvement Programme (NSIP)	22	2	(20)	79	84	5
Stations - Access for All (AfA)	7	(1)	(8)	116	100	(16)
Development	-	11	11	126	159	33
Level crossing safety	33	6	(27)	107	109	2
Passenger journey improvement	34	(49)	(83)	66	74	8
The strategic rail freight network	97	40	(57)	232	265	33
Total funds	**254**	**(3)**	**(257)**	**867**	**927**	**60**
Committed projects						
Thameslink	236	130	(106)	2,158	1,875	(283)
Crossrail	230	83	(147)	2,277	1,785	(492)
GW electrification (Paddington to Cardiff)	428	330	(98)	2,658	2,748	90
Adjustment for DfT funding - GW electrification	-	-	-	(82)	(82)	-
Bridgend to Swansea electrification	-	-	-	22	20	(2)
East West Rail (committed scheme)	15	142	127	311	407	96
Northern Hub	237	218	(19)	1,630	1,567	(63)
IEP Programme	67	26	(41)	419	448	29
North Trans Pennine Electrification East	129	(47)	(176)	293	287	(6)
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	18	(5)	(23)	133	169	36
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(91)	(91)	-
Stafford area improvement scheme	-	2	2	187	183	(4)
West coast power supply upgrade	5	32	27	212	224	12
Total committed projects	**1,365**	**911**	**(454)**	**10,124**	**9,540**	**(584)**
Named schemes						
The Electric Spine:						
MML electrification	7	(419)	(426)	302	61	(241)
Derby station area remodelling	83	55	(28)	141	133	(8)
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	(5)	(5)	-	3	3
Electric spine (DfT SoFA amount)	235	547	312	461	866	405
Total Electric Spine projects	**325**	**178**	**(147)**	**904**	**1,063**	**159**
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	-	-	-	4	2	(2)
Oxford Station area capacity and station enlargement	40	54	14	92	138	46
Total Thames Valley projects	**40**	**54**	**14**	**97**	**143**	**46**
Midlands						
Walsall to Rugeley electrification	43	57	14	136	136	-
Total Midlands Projects	**43**	**57**	**14**	**136**	**136**	**-**
Yorkshire						
Huddersfield station capacity improvement	-	-	-	(1)	-	1
Total Yorkshire Projects	**-**	**-**	**-**	**(1)**	**-**	**1**
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	8	9	1
Service Improvements in the Ely Area	-	-	-	1	1	-
Redhill additional platform	1	-	(1)	60	59	(1)
Total airports & Ports	**1**	**-**	**(1)**	**69**	**69**	**-**

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
South East						
Waterloo	86	148	62	466	465	(1)
Total South East	**86**	**148**	**62**	**466**	**465**	**(1)**
West						
Dr Days to Filton Abbey Wood capacity improvements	69	50	(19)	131	129	(2)
Bristol Temple Meads passenger capacity	2	-	(2)	4	9	5
Total West	**71**	**50**	**(21)**	**135**	**138**	**3**
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	-	-	-	-	-
South London HV traction power upgrade	1	(5)	(6)	4	4	-
West Anglia main line capacity increase	29	18	(11)	82	88	6
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	(5)	(5)	4	5	1
West of England DMU capability works	6	24	18	24	40	16
East Kent resignalling phase 2	-	-	-	57	58	1
Stevenage and Gordon Hill turnbacks	5	2	(3)	8	9	1
Reading, Ascot to London Waterloo train lengthening	15	9	(6)	47	48	1
Uckfield line train lengthening	-	(1)	(1)	21	20	(1)
MML long distance high speed services train lengthening	3	(19)	(22)	7	1	(6)
Route gauge Clearance for different EMUs	20	-	(20)	38	42	4
Bradford Mill Lane capacity	-	(1)	(1)	-	3	3
Leeds station capacity	-	-	-	-	-	-
Chiltern Main Line Train Lengthening	-	(1)	(1)	17	16	(1)
North West train lengthening	2	12	10	4	35	31
New Cross Grid	6	-	(6)	21	16	(5)
Anglia traction power supply upgrade	19	4	(15)	47	50	3
Sussex traction power supply upgrade	33	17	(16)	118	125	7
Wessex traction power supply upgrade	1	(5)	(6)	47	47	-
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	3	-	(3)	34	37	3
LNE routes traction power supply upgrade	26	(1)	(27)	34	33	(1)
Total HLOS capacity metric schemes	**169**	**48**	**(121)**	**615**	**678**	**63**
Third party funded						
Welsh Valley lines electrification	-	(1)	(1)	2	3	1
Total Third Party funded	**-**	**(1)**	**(1)**	**2**	**3**	**1**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 Baseline	2018-19 Difference	Cumulative Actual	Cumulative Baseline	Cumulative Difference
CP4 Projects Rollovers						
Birmingham New St Gateway	2	(19)	(21)	199	201	2
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	5	(1)	(6)	65	65	-
Redditch Branch Enhancement	-	-	-	19	19	-
Kent power supply upgrade (CP4)	-	(1)	(1)	68	69	1
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	1	(1)	(2)	91	84	(7)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	17	17	-
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Battersea Park Station Planform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	-	2	2	28	26	(2)
Westerleigh Junction - Barnt Green linespeed increase	-	(2)	(2)	-	5	5
Station Security	2	4	2	3	4	1
Other CP4 Rollover	2	-	(2)	8	-	(8)
Total CP4 rollovers	**12**	**(18)**	**(30)**	**519**	**513**	**(6)**
Other projects						
Seven day railway projects	-	(1)	(1)	54	55	1
ERTMS Cab fitment	-	(40)	(40)	32	37	5
R&D allowance	-	(1)	(1)	14	15	1
Depots and stabling	43	(98)	(141)	238	272	34
Income generating property schemes	73	(9)	(82)	420	315	(105)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(310)	-	310
Total other projects	**116**	**(149)**	**(265)**	**448**	**694**	**246**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**2,482**	**1,275**	**(1,207)**	**14,381**	**14,369**	**(12)**
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	26	-	(26)
DNOs clearance work	(8)	-	8	13	-	(13)
OCSLNE SCPF Newcastle Station	-	-	-	21	-	(21)
Tram Train Project	8	-	(8)	17	-	(17)
NW Electrification	3	-	(3)	104	-	(104)
W001cReadingIndFeeder	20	-	(20)	75	-	(75)
Ilkestone New Station	-	-	-	6	-	(6)
Cambridge North Stn (Non Cash)	-	-	-	6	-	(6)
Crossrail	66	-	(66)	84	-	(84)
G001 Gospel O2B OLE (Non Cash)	-	-	-	40	-	(40)
Brighton ML Upgrade	9	-	(9)	9	-	(9)
Other government sponsored schemes	82	-	(82)	153	-	(153)
Total Government sponsored schemes	**180**	**-**	**(180)**	**554**	**-**	**(554)**
Network Rail spend to save schemes						
Mountfield	-	-	-	34	-	(34)
Other spend to save schemes	3	-	(3)	3	-	(3)
Total Network Rail spend to save schemes	**3**	**-**	**(3)**	**37**	**-**	**(37)**
East West Rail (committed scheme)	-	-	-	153	-	(153)
Other	-	-	-	11	-	11
Total Schemes promoted by third parties	**-**	**-**	**-**	**164**	**-**	**(164)**
Discretionary Investment	**15**	**-**	**(15)**	**45**	**-**	**(45)**
Total non PR13 enhancement expenditure	**198**	**-**	**(198)**	**800**	**-**	**(800)**
Total Network Rail funded enhancements (see Statement 1)	**2,680**	**1,275**	**(1,405)**	**15,181**	**14,369**	**(812)**
Third Party PAYG	**624**	**-**	**(624)**	**2,685**	**-**	**(2,685)**
Total enhancements (see statement 2b)	**3,304**	**1,275**	**(2,029)**	**17,866**	**14,369**	**(3,497)**

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

In £m 2018-19 prices unless stated

Notes:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those relating to the programmes with their own protocol (such as Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £2,680m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£3,304m) less the PAYGO schemes funded by third parties (£624m).

(5) Investment expenditure this year was lower than the previous year reflecting the progress of delivery across a number of programmes, with notable contributions from Thameslink and Great Western Electrification.

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(6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline, which has reversed some of the underspend witnessed in earlier years of the control period. Across CP5, expenditure has been lower than the Hendy baseline but there have been overspends on certain programmes. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure across the control period is higher than the baseline as extra work has been identified to improve the network in this area ahead of CP6. Expenditure this year included work on Werrington Grade separation and Kings Cross re-modelling.

b. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is higher than the baseline in the current year it is lower across the control period as insufficient schemes with compelling business cases have been identified and delivered in CP5. Investment this year included works at Stanford Le Hope, Elstree & Borehamwood and Bridgend.

c. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. This included delivery of important projects at Finsbury Park, Leyland, Virginia Water and Severn Tunnel Junction stations.

d. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. There was minimal expenditure in the current year and across the control period, investment was lower than the Hendy baseline.

e. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the Hendy baseline which has offset reductions experienced in the earlier years of CP5. Across the control period investment is slightly lower than the Hendy baseline. This slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land.

f. Passenger Journey Improvement - this fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Whilst expenditure was higher than the baseline this year, it is lower than the Hendy expectation across the control period as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.

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g. The Strategic Rail Freight Network - the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Although expenditure is higher than the baseline this year, it is lower across the control. Investment this year includes major investment in the Ipswich to Felixstowe capacity project, as well as works at Southampton and Peak Forest to London works.

(7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period in this category is higher the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline (such as Crossrail and Thameslink) and some which have spent less (such as East West Rail and GW electrification (Paddington to Cardiff)). The notable variances between expenditure and the baseline are set out below:

a. Thameslink - the objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and the control period is higher than the baseline. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a which has been offset by deferral of activity as parts of the programme have been delayed into CP6. 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). A large part of the investment this year was around London Bridge area to facilitate traffic increases.

b. Crossrail - this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator's determination in the year and control period due to higher underlying costs of the work that has been completed which has resulted in financial underperformance (refer to Statement 5). This has been partly offset by reductions in the progress of the overall programme, such as Western stations works. This year there has been a reclassification of funding from third party PAYGO to Crossrail as agreed with ORR and DfT. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

c. GW electrification - this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is higher than the baseline this year, which has reversed some of the underspend witnessed in earlier years of the control period. Across CP5, costs are lower than the Hendy baseline. This is mainly due to programme deferral which has been partly offset by financial underperformance (refer to Statement 5). Slower progress on the programme has been caused by a variety of factors, including: working around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery. A higher proportion of the expenditure was in Wales this year as the programme spreads Westwards.

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d. Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

e. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period is largely consistent with the baseline.

f. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower than the baseline this year, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2 which accounted for the extra spend earlier in the control period as did some of the financial underperformance reported (refer to Statement 5). The lower costs for the control period are mainly due to deferrals of activity to later years as the output and timing of this programme have been re-phased in line with DfT commitments.

g. Northern Hub - the outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs in the control period are higher than the baseline which reflects higher underlying programme costs partly mitigated by deferral of activity into CP6. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review by the time the works finish in CP6. Expenditure this year includes improvements to power supplies at Liverpool Lime Street station and work in the Leeds area.

h. IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure in the year is higher than the baseline but remains behind for the control period. As noted in last year’s Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme.

i. North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. Investment across the control period is broadly in line with the Hendy baseline for CP5. The slightly higher costs relate to acceleration of activity from CP6. In the current year, DfT set a new baseline for the programme which has resulted in the negative baseline included for 2018/19. Notable schemes this year included platform extensions and work in the Leeds area.

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j. North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East (see above) as the baseline for this programme has been expanded to include the West element.

k. Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Expenditure across the control period was lower than the Hendy baseline. This was mostly due to financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.

l. Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

m. Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target. As planned, there was minimal investment in the current year as the programme is substantially complete.

n. West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period are lower than the baseline. However, this is mainly due to deferral of activity which has more than offset higher underlying costs. These additional programme costs have resulted in financial underperformance being recognised this control period (refer to Statement 5c).

(8) PR13 funded schemes – named schemes - expenditure in the year is higher than the baseline, negating some of the underspends from earlier years of the control period. Across CP5, expeneidutre is lower than the regulatory assumption mostly due to postponement of outputs until future control periods, most notably electrification works. Notable variances between expenditure and baselines are set out below:

a. Midland Mainline Electrification - this project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. This year, the management of this programme has been combined with the Electric Spine programme which has resulted in a significant adjustment to the Hendy baseline this year. Therefore, progress should be considered in conjunction with Electric Spine. Across the two headings, investment has been lower then Hendy baseline this control period as parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered to be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5). This has been reported under the Electric Spine heading in Statement 5.

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b. Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. This programme should be considered in conjunction with the Electric Spine programme as responsibility for delivering outputs between these two schemes has merged. Expenditure across the control period is higher than the Hendy baseline which has contributed to the financial underperformance referenced below.

c. Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.

d. Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. This year the DfT change control process resulted is a change in the scope of the programme to deliver many of the projects previously managed through the MML electrification category. Therefore, progress should be considered across the two headings. Expenditure in the control period is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Programme elongation has resulted in financial underperformance (as reported in Statement 5).

e. Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity this control period.

f. Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure for the control period is largely in line with the Hendy target.

g. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.

h. Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure across the control period is in line with the Hendy baseline. However, this includes a significant reduction in the outputs delivered. The increase in overall programme costs has been impacted by prolongation of the project and higher than expected contractor costs and project complexity. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

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

In £m 2018-19 prices unless stated

i. Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

j. Western access to London Heathrow Airport – this project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period is broadly in line with the agreed baseline.

k. Service improvements in the Ely area – this project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period is minimal as it has been agreed that the scheme will now be delivered in the next control period.

l. Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Expenditure across the control period is in line with the Hendy review expectations. However, this is mainly due to a reduction in the outputs delivered in CP5. Extra work has been required from to meet timetable commitments resulting in higher underlying project costs. As a result financial underperformance has been reported for CP5 (refer to Statement 5c).

m. Waterloo - this project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment across the control period is broadly in line with the Hendy baseline. There was significant investment in this programme in the current year, including work on the old international section of the station to increase passenger capacity.

n. Dr Days to Filton Abbey Wood Capacity Improvements - the project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure across the control period is consistent with the Hendy baseline. However, this is due to higher underlying costs being offset by reductions in scope. The higher underlying costs have resulted in financial underperformance (refer to Statement 5a).

o. Bristol Temple Meads Passenger Capacity – this project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period has been minimal as parts of this programme have been postponed until CP6.

(9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline, mitigating some of the underspend witnessed in the earlier years of the control period. Across the control period investment is lower than the Hendy baseline with notable contributions from North West Train Lengthening and West of England DMU capability works. Variances between expenditure and baselines are discussed below:

a. Leeds and Sheffield capacity - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. Investment in the control period is minimal, which is reflected in the Hendy target, as the projects outputs have been deferred until CP6.

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

In £m 2018-19 prices unless stated

b. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes in CP6 and beyond. Expenditure on this programme is in line with the Hendy baseline across the control period.

c. West Anglia main line capacity increase – this project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure across the control period is lower than the Hendy baseline. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. This has resulted in some of the programme being deferred into CP6.

d. Bow Junction upgrade - this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is broadly in line with the Hendy baseline across the control period.

e. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure across the control period is in lower than the Hendy baseline as some parts of the project have been deferred until CP6.

f. East Kent resignalling phase 2 - this project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was minimal as the project is substantially complete. Costs for the control period are broadly in line with the baseline.

g. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.

h. Reading, Ascot to London Waterloo train lengthening - this project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Whilst expenditure across the control period is broadly in line with the Hendy target, not all of the outputs have been delivered yet. As a result of these underlying costs financial underperformance has been recognised (refer to Statement 5a) which has been offset by deferral.

i. Uckfield line train lengthening - the key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure across the control period is broadly in line. Expenditure in the year is minimal as the programme is substantially complete.

j. MML long distance high speed services train lengthening - the project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Expenditure across the control period was higher than the Hendy baseline which mainly arose in the current year. This was due to DfT reallocating some of the CP5 enhancements budget to other areas of the portfolio.

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

In £m 2018-19 prices unless stated

k. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure across the control period was lower than the Hendy baselines. The slight underspend compared to the baseline was mainly due to reduced output delivery and so is not eligible for inclusion as financial outperformance (refer to Statement 5).

l. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

m. Leeds station capacity – this project aims to deliver additional capacity at Leeds Station to support the operation of longer trains and additional services on a number of routes. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

n. Chiltern Main Line Train Lengthening - this project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. Overall programme costs are broadly in line with the baseline.

o. North West train lengthening - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and across the control period. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.

p. New Cross Grid - this project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure across the control period is higher than the baseline as work has been accelerated from control period 6 funding baselines to deliver projects in the current year.

q. Anglia traction power supply upgrade - the aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure across the control period is lower than the Hendy baseline. This includes the recognition of financial outperformance (refer to Statement 5).

r. Sussex traction power supply upgrade - the principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic of the Thameslink Programme. Expenditure for the control period is lower than the Hendy baseline. This is mostly due to the recognition of financial outperformance (refer to Statement 5a).

s. Wessex traction power supply upgrade – the aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure across the control period is in line with the Hendy baseline which has been revised through the change control process.

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

In £m 2018-19 prices unless stated

t. London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.

u. Kent traction power supply upgrade - the project will provide the power to facilitate 12 car operation across the route. Expenditure across the control period is lower than the Hendy baseline mainly due to the recognition of financial outperformance (refer to Statement 5a).

v. London North East routes traction power supply upgrade - this project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. Expenditure across the control period is in line with the Hendy baseline Delivery of milestones have been re-phased and agreed with DfT.

(10) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the control period is in line with baseline agreed following the Hendy review.

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

a. Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period are broadly in line with the Hendy baseline as a result of changes made to the baseline by DfT through the change control process.

b. Bromsgrove Elec - Midlands Improvements Programme - this project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first four years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).

c. Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period is in line with the baseline. There is minimal expenditure in the current year as this programme is substantially complete.

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

In £m 2018-19 prices unless stated

d. Kent Power Supply Upgrade (CP4) – the project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was minimal sa the project is substantially complete. Spend for the control period is broadly in line with the Hendy baseline.

e. Barry – Cardiff Queen Street - the output of the project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. This is a CP4 capacity scheme rolled over into CP5. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.

f. Capacity relief to the ECML (East Coast Main Line) – the scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

g. Package 7,10 Car Park West Suburban Railway – the project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period. Expenditure in the current year is minimal as this programme is substantially complete.

h. Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure is broadly line with the Hendy baseline for the control period. Expenditure in the current year is minimal as this programme is substantially complete.

i. MML Linespeed Improvements – this project aims to increase the line speed on the Midlands Main Line. Across the control period expenditure has been broadly in line with the baseline assumption. As expected, expenditure in the current year was minimal as the project is substantially complete.

j. Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure in the current year is limited as most of the programmes are now complete.

(12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline across the control period mainly due to the receipt of a £0.3bn capital grant from DfT in 2017/18 (cash prices) which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is broadly in line with the baseline assumption across CP5. Notable variances to the baseline include:

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

In £m 2018-19 prices unless stated

a. Seven day railway projects – there was minimal expenditure in the current year as the objectives of the fund had largely been met in the earlier years of the control period. As noted in the previous year's Regulatory financial statement the programme is now substantially complete. The lower costs of delivering the programme has resulted in some financial outperformance being recognised this control period (refer to Statement 5c) on the Mobile Maintenance System element of the programme.

b. ERTMS Cab Fitment – the objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Some of the CP5 budget has been reallocated by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.

c. R&D allowance – following change control procedures agreed with DfT, there is not intended to be any further investment in R&D classified as Enhancements. Instead, expenditure in the current year (and for 2017/18) is included with renewals (refer to Statement 9b).

d. Depots & stabling – the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is higher than the baseline which was adjusted this year through DfT's change control process. This included transferring responsibility for delivering schemes from Network Rail to operators. Across the control period investment is lower than the Hendy baseline. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

e. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure for the control period is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Notable schemes delivered this year included purchases of items around East Croydon and Clapham Junction stations to facilitate long-term strategic operations around station redevelopments in those areas.

f. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.

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

In £m 2018-19 prices unless stated

g. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a £0.3bm contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £0.3bn (refer to Statement 2a).

(13) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programmes this year relate to works to facilitate the wider Crossrail programme, including works to support Old Oak Common and Paddington approached. In addition, there are also costs relating to timetable publication delays. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5). Across the control period there have also been improvements to Gospel Oak to Barking overhead line electrification, a joint project undertaken by network Rail, DfT and Rail for London. This control period also saw investment in Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. Schemes promoted by third parties – the main item in this category which accounts for the majority of the expenditure this control period was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification. Expenditure through this fund in the current year has been minimal, continuing the trend of the previous year.

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

In £m 2018-19 prices unless stated

d. Discretionary investment – expenditure in the control period includes to Manchester Victoria station redevelopment and on CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relates to expenditure incurred by Network Rail on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

e. PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. In addition DfT made a £0.3bn contribution to the enhancement portfolio in England & Wales in 2017/18, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. Also this year there has been a reclassification of funding from third party PAYGO to Crossrail (shown within Committed Projects) as agreed with ORR and DfT. This funding switch, along with the financing adjustment in 2017/18 noted above is the main reason for the decrease in expenditure in this heading this year compared to last year. Expenditure this year also includes investment in East West Rail and work on Network Rail's assets to support the development of the High Speed 2 (HS2) programme.

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

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**45,676**	**42,162**	**(3,514)**	**29,335**	**28,642**	**(693)**
Income						
Grant income	(3,786)	(3,806)	(20)	(19,329)	(19,297)	32
Fixed charges	(783)	(736)	47	(2,069)	(1,950)	119
Variable charges	(1,175)	(1,310)	(135)	(5,285)	(5,614)	(329)
Other single till income	(2,362)	(1,042)	1,320	(5,629)	(4,420)	1,209
Total income	**(8,106)**	**(6,894)**	**1,212**	**(32,312)**	**(31,281)**	**1,031**
Expenditure						
Network operations	633	377	(256)	2,628	1,949	(679)
Support costs	417	402	(15)	1,791	2,080	289
Traction electricity, industry costs and rates	686	771	85	2,858	3,090	232
Network maintenance	1,365	1,010	(355)	6,036	5,078	(958)
Schedule 4	318	206	(112)	1,118	1,006	(112)
Schedule 8	289	5	(284)	885	21	(864)
Renewals	2,708	2,276	(432)	12,632	11,751	(881)
PR13 enhancement	2,482	1,878	(604)	13,546	12,486	(1,060)
Non-PR13 enhancement	198	-	(198)	755	-	(755)
Total expenditure	**9,096**	**6,925**	**(2,171)**	**42,249**	**37,461**	**(4,788)**
Financing						
Interest expenditure on nominal debt - FIM covered	221	772	551	1,680	3,021	1,341
Interest expenditure on index linked debt - FIM covered	237	286	49	1,110	1,270	160
Expenditure on the FIM	240	471	231	1,391	2,023	632
Interest expenditure on government borrowing	957	-	(957)	2,385	-	(2,385)
Interest on cash balances held by Network Rail	(8)	(30)	(22)	(35)	(100)	(65)
Total interest costs	**1,647**	**1,499**	**(148)**	**6,531**	**6,214**	**(317)**
Accretion on index linked debt - FIM covered	448	564	116	1,880	2,705	825
Total financing costs	**2,095**	**2,063**	**(32)**	**8,411**	**8,919**	**508**
Corporation tax	-	3	**3**	(2)	7	9
Other	(652)	-	652	428	511	83
Movement in net debt	**2,433**	**2,097**	**(336)**	**18,774**	**15,617**	**(3,157)**
Closing net debt	**48,109**	**44,259**	**(3,850)**	**48,109**	**44,259**	**(3,850)**

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

(£m, nominal prices)	March 2019 £m	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	2,433	4,928	4,176	3,403	3,834
Represented by:					
New debt issued					
Market issued debt	-	-	-	-	-
Borrowing from government	5,511	7,584	5,551	6,821	5,859
Accretion on index linked debt	448	616	409	204	203
Debt repaid	(4,153)	(2,881)	(2,174)	(2,791)	(2,160)
Decrease/ (increase) in net cash balances	579	(293)	368	(874)	223
Other	48	(98)	22	43	(291)
Increase in net debt	**2,433**	**4,928**	**4,176**	**3,403**	**3,834**

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

In £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	March 2019 £m	March 2019 % of total borrowing	March 2018 £m	March 2018 % of total borrowing	March 2017 £m	March 2017 % of total borrowing	March 2016 £m	March 2016 % of total borrowing	March 2015 £m	March 2015 % of total borrowing
Market issued debt										
Nominal borrowings (GBP)	3,973	8%	3,968	8%	4,670	11%	5,131	13%	6,810	20%
Nominal borrowings (Foreign currency)	296	1%	1,872	4%	2,583	6%	4,299	11%	5,398	16%
Total nominal borrowings	**4,269**	**9%**	**5,840**	**12%**	**7,253**	**17%**	**9,430**	**24%**	**12,208**	**36%**
Index linked borrowings (GBP)	17,518	36%	17,043	36%	16,446	39%	16,014	42%	15,811	47%
Borrowing from government	27,226	56%	24,277	51%	18,240	44%	12,687	34%	5,859	17%
Total regulatory borrowings	**49,013**	**100%**	**47,160**	**100%**	**41,939**	**100%**	**38,131**	**100%**	**33,878**	**100%**
Uncleared cash items										
Obligations under finance lease										
Net cash balances	(905)		(1,484)		(1,191)		(1,559)		(709)	
Regulatory net debt as at 31 March 2018	**48,109**		**45,676**		**40,748**		**36,572**		**33,169**	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	0.90	0.87	0.71	0.51	1.11	1.03
FFO/interest	2.95	2.94	2.65	2.15	2.67	2.75
Net debt/RAB (gearing)	69.5%	71.0%	73.2%	76.0%	74.6%	71.8%
FFO/debt	9.3%	8.4%	7.8%	7.1%	9.1%	9.3%
RCF/debt	6.1%	5.5%	4.8%	3.8%	5.7%	5.9%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail's debt has increased by £2.4bn 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. Despite the high levels of investment this year, the increase in net debt was less than in previous years in control period 5. This was primarily due to the receipts from the asset divestment programme generated this year.

(2) Net debt at 31 March 2019 is £3.8bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.7bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£2.7bn), higher performance regime costs (£1.0bn) and higher net operating costs (£1.3bn) have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings (£0.5bn) and benefits from asset divestment (£1.4bn).

(3) Income variances are shown in more detail in Statement 6a.

(4) Network operations variances are show in more detail in Statement 7a.

(5) Support costs variances are show in more detail in Statement 7a.

(6) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(7) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation which has been partly offset by lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position. Costs are lower than the previous year due to lower average levels of this class of debt.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator anticipated largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too. Costs are higher than the previous year, which is expected as the value of accreting debt increases each year (in lieu of making interest payments), even if there are no new issuances.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed across the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

(13) Analysis of the movement in Network Rail's net debt – section B) –The decrease is cash balances this year is mainly a result of net movements in derivatives. Network Rail has entered into derivative contracts to hedge the risk of interest rate and foreign exchange movements. Depending upon the difference in the notional value of these hedges and the market price on each individual contract, Network Rail either must post collateral with counterparties or receives collateral payments from them. The collateral positions are classified as cash holdings in the Regulatory financial statements. The volatility in this position can be seen by the movements across each year of the control period.

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

In £m nominal unless otherwise stated

(14) Analysis of Network Rail's net debt – section C) – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. It is, therefore, not surprising that proportion of market issued debt has decreased in the year. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms due to bonds that have matured in the current year (as noted above) have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature until at least control period 7 but the nature of these items means that most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt is in line with the previous year.

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

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

In £m nominal unless otherwise stated

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). This year, the ratio was consistent with the regulatory expectation. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was around 0.3, some way below the regulatory assumption. This was mainly due to higher Schedule 8, Network operations and Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The decline in the underlying ratio compared to the previous year is mostly due to higher costs under the performance regime (schedule 4 and schedule 8) and higher operating costs, as well as higher non-accreting interest costs this year as the level of DfT issued debt increases.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above. The underlying result for the year (after removing for the impact of the asset divestment) was around 1.8.

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

In £m nominal unless otherwise stated

(19) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator's expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. Given the nature of Network Rail's business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(20) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. In the current year, the result was close to the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result to around 6 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the underlying ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year, as well as extra Schedule 4 costs arising from additional renewals delivered this year.

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

In £m nominal unless otherwise stated

(21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment. The underlying result for the year (after removing for the impact of the asset divestment) was around 2.9 per cent.

(22) Debt maturity – section E) shows that nearly half of Network Rail's debt is repayable in more than five years. As an infrastructure entity it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence and liquidity risk. The table in section E) shows that the proportion of short-term debt has increased during the control period. This is a direct consequence of the aforementioned reclassification of Network Rail and the impact on financing arrangements this has had. Network Rail can now only borrow directly from DfT who have decided to issue short-term debt. The high proportion of debt payable within one year largely relates to loan drawdowns repayable to DfT. It is expected that these obligations will be met by further issuances of short term debt to DfT.

Statement 5a: Total financial performance, England & Wales

In £m 2018-19 prices unless stated

2018-19

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	3,786	3,806	(20)		(20)	-	-	-	-
Fixed Income	783	736	47		47	-	-	-	-
Variable Income	807	847	(40)		-	-	-	(40)	(40)
Other Single Till Income	2,362	1,042	1,320		1,328	-	-	(8)	(8)
Opex memorandum account	(14)	-	(14)		21	-	-	(35)	(35)
Total Income	**7,724**	**6,431**	**1,293**		**1,376**	**-**	**-**	**(83)**	**(83)**
Expenditure									
Network operations	633	377	(256)		-	-	-	(256)	(256)
Support costs	417	402	(15)		4	-	-	(19)	(19)
Industry costs and rates	305	272	(33)		(18)	-	-	(15)	(15)
Traction electricity	12	33	21		-	-	-	21	21
Reporter's fees	1	3	2		2	-	-	-	-
Network maintenance	1,365	1,010	(355)		-	(37)	-	(318)	(318)
Schedule 4 costs	318	206	(112)		-	40	-	(152)	(152)
Schedule 8 costs	289	5	(284)		-	-	-	(284)	(284)
Renewals	2,708	2,276	(432)		52	453	-	(937)	(234)
PR13 Enhancements	2,482	1,275	(1,207)		-	(849)	-	(358)	(69)
Non PR13 Enhancements	198	-	(198)		-	(183)	-	(15)	(15)
Financing Costs	2,095	2,063	(32)		(32)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	3	3		-	(6)	-	9	9
Total Expenditure	**10,823**	**7,925**	**(2,898)**		**8**	**(582)**	**-**	**(2,324)**	**(1,332)**
Total:			**(1,605)**		**1,384**	**(582)**	**-**	**(2,407)**	**(1,415)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(1,415)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(190)
Under-delivery of train performance requirements (CaSL)	(64)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(254)**
Total financial out / (under) performance to be recognised	**(1,669)**

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

In £m 2018-19 prices unless stated

				Cumulative				
				Due to:				
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	20,506	20,465	41	41	-	-	-	-
Fixed Income	2,167	2,040	127	127	-	-	-	-
Variable Income	4,081	4,130	(49)	-	-	-	(49)	(49)
Other Single Till Income	5,871	4,667	1,204	1,148	-	-	56	56
Opex memorandum account	2	-	2	52	-	-	(50)	(50)
Total Income	**32,627**	**31,302**	**1,325**	**1,368**	**-**	**-**	**(43)**	**(43)**
Expenditure								
Network operations	2,776	2,071	(705)	(5)	-	-	(700)	(700)
Support costs	1,896	2,210	314	63	-	-	251	251
Industry costs and rates	1,418	1,298	(120)	(51)	-	-	(69)	(69)
Traction electricity	83	139	56	-	-	-	56	56
Reporter's fees	6	15	9	7	-	-	2	2
Network maintenance	6,387	5,390	(997)	-	(95)	-	(902)	(902)
Schedule 4 costs	1,180	1,067	(113)	-	238	-	(351)	(351)
Schedule 8 costs	927	21	(906)	-	-	-	(906)	(906)
Renewals	13,425	12,476	(949)	72	3,456	-	(4,477)	(1,125)
PR13 Enhancements	14,381	14,369	(12)	-	1,215	-	(1,227)	(257)
Non PR13 Enhancements	800	-	(800)	-	(765)	-	(35)	(35)
Financing Costs	8,781	8,919	138	138	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(2)	7	9	-	-	-	9	9
Total Expenditure	**52,058**	**47,982**	**(4,076)**	**224**	**4,049**	**-**	**(8,349)**	**(4,027)**
Total:			**(2,751)**	**1,592**	**4,049**	**-**	**(8,392)**	**(4,070)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(4,070)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(684)
Under-delivery of train performance requirements (CaSL)	(227)
Missed milestones for asset management - data quality	(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(40)
Missed Enhancement milestones	(5)
Total adjustment for under-delivery outputs	**(960)**
Total financial out / (under) performance to be recognised	**(5,030)**

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

In £m 2018-19 prices unless stated

	2018-19				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	(368)	(463)	-	95	(1,516)	(1,806)	-	290
Total variance not included in total financial performance:	**(368)**	**(463)**	**-**	**95**	**(1,516)**	**(1,806)**	**-**	**290**
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Property Divestment	1,373	-	-	1,373	1,373	-	-	1,373
Adjustment for Crossrail finance charge	67	95	-	(28)	163	345	-	(182)
Adjustment for Welsh Valleys finance charge	-	13	-	(13)	-	26	-	(26)
Total variance not included in total financial performance:	**1,440**	**108**	**-**	**1,332**	**1,536**	**371**	**-**	**1,165**
Breakdown of variance not included in total financial performance - Support costs:								
Crossrail financing contract receipt	-	-	-	-	23	-	-	23
Spend to save adjustment	4	-	-	4	16	-	-	16
Release of CP4 long distance financial penalty provision	-	-	-	-	24	-	-	24
Total variance not included in total financial performance:	**4**	**-**	**-**	**4**	**63**	**-**	**-**	**63**
financial performance - Network Operations costs:								
Southern resilience fund	-	-	-	-	(5)	-	-	(5)
Total variance not included in total financial performance:	**-**	**-**	**-**	**-**	**(5)**	**-**	**-**	**(5)**
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction electricity	368	463	-	(95)	1,516	1,806	-	(290)
Total variance not included in total financial performance:	**368**	**463**	**-**	**(95)**	**1,516**	**1,806**	**-**	**(290)**
Breakdown of variance not included in total financial performance - Renewals:								
Thameslink Resilience Programme	50	-	-	50	50	-	-	50
Investment of CP4 long distance financial penalty	2	-	-	2	22	-	-	22
Total variance not included in total financial performance:	**52**	**-**	**-**	**52**	**72**	**-**	**-**	**72**

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

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – extra franchise income has been generated through Network Rail providing additional services to franchises, notably in London North West and, from this year, on the Eastern section of the Crossrail line. This has been augmented by benefits arising from inflation (considered in more detail in Statement 6a). In line with the regulator's FPM guidelines no financial outperformance is recognised against these factors.

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

In £m 2018-19 prices unless stated

(3) Variable income – up until this year, Network Rail had achieved marginal outperformance mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. However, in the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. Expected increases in passenger demand (as illustrated in Statement 12) in the latter years of the control period has not materialised. Timetable changes introduced in the current year were the most widespread in a generation. However, despite the improvements in capacity delivered, not all of the planned changes were able to be enacted. This coupled with operators' lack of adequately trained staff meant that the increase in services did not match the regulatory expectation. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. This is mainly due to lower freight income partly offset by extra income from offering additional services to train operators. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The PR13 assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not fully materialise. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The underperformance recognised in Other single till income this year is mainly the result of the continued decline in freight traffic (largely driven by demand for coal transportation) which have been partly offset by extra station and depot income from offering operators additional facilities. Performance in the control period is largely consistent with the determination with extra stations and depots services offered to operators and higher property sales being offset by a decline in freight income. Other single till income is set out in more detail in Statement 6a.

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

In £m 2018-19 prices unless stated

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slow freight growth owing structural changes in the industry, lower farebox income and slower than expected passenger growth have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

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(6) Network operations costs in 2018/19 are over 50 per cent higher than the regulator assumed. About one-fifth of this is due to exiting CP4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (included within the Other Single Till income heading). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM.

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

In £m 2018-19 prices unless stated

(7) Support costs – for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved. In addition, there has been some additional investment to prepare the organisation for the challenges of control period 6, including additional investment in IT, telecoms and engineering standards as well as increasing organisational capability, which have been partly mitigated by reductions in expected liabilities under legacy insurance arrangements. Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

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

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(10) Reporters' fees – in line with the Regulatory Account Guidelines (June 2017), 25 per cent of any financial out/ under performance is retained by Network Rail. As noted in previous year's Regulatory financial statement, savings in the first four years of the control period were not recognised as financial outperformance until the full control period position was clear. As the control period has now finished, financial outperformance relating the control period savings have been reported in the current year.

(11) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

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

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(12) Schedule 4 costs – this year costs are higher than the determination assumed. This is mainly due to higher like-for-like costs offset by deferral of activity. The like-for-like costs were higher than the regulator assumed, continuing the trend of earlier years of the control period. These higher like-for-like costs have resulted in the financial underperformance reported in this statement. This year, over half of the higher like-for-like costs were caused by the delay in publishing the May timetable and the knock-on impact on future timetable publications. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven’t been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

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

In £m 2018-19 prices unless stated

(13) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including additional security staff on the London North West route at known hotspots, increased fencing and working with the Samaritans such disruption affects performance significantly. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Compensation payable under the Schedule 8 regime was over £900m higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to two items. Firstly, investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4 and, secondly, Network Rail's contribution to the Thameslink resilience fund, at the behest of DfT. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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

In £m 2018-19 prices unless stated

(15)PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink, Crossrail and Northern Hub. The control period position is largely dominated by these same programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The FPM recognised in the current year mainly relates to a number of projects where spend is not eligible for RAB addition. The amounts that Network Rail were allowed to charge third parties under contractual arrangements were less than the costs that the company incurred delivering these projects. This included a number of projects delivered as part of the HS2 and Northern Programmes schemes. Costs earlier in the control period are mostly due to works undertaken at Manchester Victoria station where higher contractor costs at the end of the programme increased overall project costs to more than the funding available. As these projects are not eligible for RAB addition, the financial performance impact is set at 100 per cent of the overspend, compared to other enhancements overspends where Network Rail retains only the first 25 per cent.

(17) Financing costs – financing costs this control period are lower than the regulator expected mainly due to lower interest rates (notably inflation which impacts accreting debt) which have more than offset higher levels of average net debt compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

(18) Corporation tax – no income tax payments have been made this year, although the control period position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the first four years of the control period was been treated as neutral. As noted in last year's Regulatory financial statements, this position would be revisited at the end of the control period. Consequently, the control period variance has been recognised as financial outperformance in the current year.

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

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Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality targets for both England & Wales were missed in 2018/19, continuing the trend from earlier years of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.5 per cent was missed by. The ORR's target for England & Wales PPM across the control period was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in earlier years of the control period and ever more traffic on the network.

(3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for the previous years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.

(4) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.

(5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(6) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(183)	189	(372)	(93)	-	(93)	-	-
Signalling	(140)	104	(244)	(61)	-	(60)	(1)	-
Civils	40	200	(160)	(40)	-	(41)	1	-
Buildings	(94)	(30)	(64)	(16)	-	(11)	(5)	-
Electrical power and fixed plant	(109)	(45)	(64)	(16)	-	(10)	(6)	-
Telecoms	(20)	(20)	-	-	-	-	-	-
Wheeled plant and machinery	(44)	(44)	-	-	-	-	-	-
IT	(29)	(29)	-	-	-	-	-	-
Property	5	13	(8)	(2)	-	(2)	-	-
Other renewals	142	167	(25)	(6)	-	(6)	-	-
Total	**(432)**	**505**	**(937)**	**(234)**	**-**	**(223)**	**(11)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(781)	939	(1,720)	(430)	-	(423)	(7)	-
Signalling	189	1,301	(1,112)	(278)	-	(269)	(9)	-
Civils	(221)	731	(952)	(238)	-	(194)	(44)	-
Buildings	(48)	184	(232)	(58)	-	(34)	(24)	-
Electrical power and fixed plant	112	396	(284)	(71)	-	(31)	(40)	-
Telecoms	63	83	(20)	(5)	-	(3)	(2)	-
Wheeled plant and machinery	170	170	-	-	-	-	-	-
IT	(140)	(140)	-	-	-	-	-	-
Property	43	47	(4)	(1)	-	(1)	-	-
Other renewals	(336)	(183)	(153)	(44)	-	(17)	(27)	-
Total	**(949)**	**3,528**	**(4,477)**	**(1,125)**	**-**	**(972)**	**(153)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

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(2) Track – there has been notable financial underperformance in the current year. Over 10 per cent of this was expected in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical difficulties of using High Output delivery methods resulted in a number of routes electing not to use this delivery method in 2017/18 and 2018/19. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. The determination assumed that High Output unit costs would be half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost at Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation this control period as a result of landslips and other water damage which have affected the network throughout England & Wales. These emergency works have contributed over £125m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip. The unit rates on these types of jobs are higher than usual given the time critical nature of the incidents.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA, programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme, and increases in the programme scope. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

(7) Telecoms – whilst like-for-like costs this year were broadly in line with regulatory targets, financial underperformance has been reported this year, continuing the trend from earlier years of the control period. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units.

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

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

In £m 2018-19 prices unless stated

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof). The underperformance recognised in the control period includes notable contributions from electrification projects and FTN.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(106)	(34)	-	(72)	(9)
East West Rail (committed scheme)	127	123	-	4	-
IEP Programme	(41)	(33)	-	(8)	(3)
Reading station area redevelopment	(23)	(25)	-	2	2
West coast power supply upgrade	27	28	-	(1)	-
MML electrification	(426)	(433)	-	7	2
Walsall to Rugeley electrification	14	19	-	(5)	(1)
Redhill additional platform	(1)	(3)	-	2	1
Kent power supply upgrade	(1)	(1)	-	-	-
Chiltern Main Line Train Lengthening	(1)	(2)	-	1	-
Capacity relief to the ECML	(2)	(3)	-	1	-
Seven day railway projects	(1)	(1)	-	-	-
MML linespeed improvements	2	2	-	-	-
Manchester Victoria	-	-	-	-	-
Crossrail	(147)	(31)	-	(116)	(19)
Northern Hub	(19)	-	-	(19)	(5)
Waterloo	62	62	-	-	-
Bromsgrove Elec - Midlands Improvements Progr	(6)	(7)	-	1	-
Dr Days Jcn to Filton Abbey Wood Capacity	(19)	3	-	(22)	(6)
Anglia Traction power supply upgrade	(15)	(23)	-	8	2
Sussex Traction power supply upgrade	(16)	(17)	-	1	-
Reading, Ascot to Waterloo Train Lengthening	(6)	(3)	-	(3)	-
GW electrification (Paddington to Cardiff)	(98)	(1)	-	(97)	(24)
Electric Spine	279	286	-	(7)	(2)
Cambridge North Stn (Non Cash)	-	-	-	-	-
Kent traction power supply upgrade	(3)	(7)	-	4	1
T12 Enhancements	(33)	(1)	-	(32)	(8)
East coast connectivity	(73)	(68)	-	(5)	(5)
Stations - Access for All (AfA)	(8)	8	-	(16)	(16)
Other Enhancements	(871)	(870)	-	(1)	6
Total	**(1,405)**	**(1,032)**	**-**	**(373)**	**(84)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(283)	125	-	(408)	(57)
East West Rail (committed scheme)	96	123	-	(27)	(7)
IEP Programme	29	23	-	6	2
Reading station area redevelopment	36	3	-	33	8
West coast power supply upgrade	12	50	-	(38)	(10)
MML electrification	(241)	(241)	-	-	-
Walsall to Rugeley electrification	-	40	-	(40)	(10)
Redhill additional platform	(1)	13	-	(14)	(3)
Kent power supply upgrade	1	(8)	-	9	2
Chiltern Main Line Train Lengthening	(1)	2	-	(3)	(1)
Capacity relief to the ECML	(7)	1	-	(8)	(2)
Seven day railway projects	1	(2)	-	3	1
MML linespeed improvements	(2)	-	-	(2)	-
Manchester Victoria	(11)	-	-	(11)	(11)
Crossrail	(492)	(95)	-	(397)	(98)
Northern Hub	(63)	114	-	(177)	(44)
Waterloo	(1)	(1)	-	-	-
Bromsgrove Elec - Midlands Improvements Progr	-	5	-	(5)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	(2)	33	-	(35)	(9)
Anglia Traction power supply upgrade	3	(11)	-	14	4
Sussex Traction power supply upgrade	7	(1)	-	8	2
Reading, Ascot to Waterloo Train Lengthening	1	14	-	(13)	(3)
GW electrification (Paddington to Cardiff)	90	187	-	(97)	(24)
Electric Spine	400	407	-	(7)	(2)
Cambridge North Stn (Non Cash)	-	-	-	-	-
Kent traction power supply upgrade	3	(1)	-	4	1
T12 Enhancements	(33)	-	-	(33)	(8)
East coast connectivity	(5)	-	-	(5)	(5)
Stations - Access for All (AfA)	(16)	-	-	(16)	(16)
Other Enhancements	(333)	(330)	-	(3)	(1)
Total	**(812)**	**450**	**-**	**(1,262)**	**(292)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. Higher contractor close out costs for London Bridge also added to the programme expenditure, as did the elongation of the programme. These reasons have led to negative FPM being declared in both the current year and across the control period. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed in CP6 to deliver the remainder of the programme.

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

In £m 2018-19 prices unless stated

(2) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.

(3) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Cost has been better than expected on the East Coast Connectivity and Power Supply Upgrade schemes. There have been lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan. This has partially been offset by overspends in the Great Western Main Line capacity scheme at Bristol Parkway Station.

(4) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.

(5) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised across the control period. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations. Earlier in the control period costs increased due in part of delays in a number of sectional commissioning due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.

(6) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted. The programme has also been affected by increased contractor claims and additional complexity and work required on overhead parapets to adds safety concerns.

(7) Redhill additional platform – Extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which has prolonged project timescales. The minor benefit recognised this year is a result of a reduction in programme costs following successful close out or commercial disputes.

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

In £m 2018-19 prices unless stated

(8) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the control period due to lower programme costs. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs.

(9) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.

(10) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.

(11) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overheard Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

(12) Northern Hub – underperformance has been recognised this year and for the control period following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving costlier than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition, there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted. Further cost increases identified in the current year include additional contractor claims, difficulties integrating the new infrastructure to the power grid, underestimated complexities around tunnel works and acceleration of works to get assets into operations in line with committed timescales.

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

In £m 2018-19 prices unless stated

(13) Bromsgrove electrification – the expected total programme costs have increased since the Hendy baseline was set. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period in 2017/18. Further possessions had to be acquired in the current year which has resulted in extra project costs.

(14) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this control period resulting in the recognition of financial underperformance in the current year and control period. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.

(15) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this control period following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the works. The programme has also benefitted from efficient possession management and cooperation with power grid managers to integrate the new infrastructure to power supply points.

(16) Sussex traction power supply upgrade – some savings have been achieved this control period against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control pf programme contingencies.

(17) Reading, Ascot to Waterloo Train Lengthening – the anticipated costs of this programme have increased this control period resulting in financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council requirements.

(18) Great Western electrification – programme costs have increased this year which has resulted in the recognition of financial underperformance. This includes extra contractor and access costs to meet the Transport for Wales direction to complete the Overhead Line Electrification improvements to the Cardiff area by November 2019. Additional access and blockade costs have to be paid to operators to obtain access required to complete Overhead Line Electrification for the Newbury to Reading section. Finally, there are extra access compensation costs required to undertake a three-week blockade at Bristol Parkway to deliver the Overhead Line Electrification works to this station to meet timetable commitments (December 2018).

(19) Electric spine – this should be considered along with the Derby Station Area remodelling programme. Some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed. This includes increased signalling and platform costs due to changes in the scheme design, materials price increases and revised method and sequencing during commissioning.

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

In £m 2018-19 prices unless stated

(20) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

(21) East Coast Connectivity – although funding available through this ring-fenced fund is limited, Network Rail has made the decision to invest in improvement schemes to facilitate improvements in this part of the network. In line with the Regulatory Accounting Guidelines (June 2017) none of the overspend in this category is eligible for RAB addition and so is included at 100 per cent when assessing financial underperformance.

(22) Stations - Access for All (AfA) – although funding available through this ring-fenced fund is limited, Network Rail has made the decision to invest in delivering extra facility improvements for passengers. In line with the Regulatory Accounting Guidelines (June 2017) none of the overspend in this category is eligible for RAB addition and so is included at 100 per cent when assessing financial underperformance.

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

Statement 6a: Analysis of income, England & Wales

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	**PR13**	**Difference**	**Actual**	**PR13**	**Difference**	**Actual**
Grant income	**3,786**	**3,806**	**(20)**	**20,506**	**20,465**	**41**	**4,184**
Franchised track access income							
Fixed charges	**783**	**736**	**47**	**2,167**	**2,040**	**127**	**374**
Variable charges							
Variable usage charge	167	182	(15)	842	872	(30)	166
Traction electricity charges	368	463	(95)	1,516	1,806	(290)	294
Electrification asset usage charge	17	18	(1)	78	78	-	15
Capacity charge	431	453	(22)	2,157	2,176	(19)	425
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	192	194	(2)	1,004	1,004	-	191
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**1,175**	**1,310**	**(135)**	**5,597**	**5,936**	**(339)**	**1,091**
Total franchised track access income	**1,958**	**2,046**	**(88)**	**7,764**	**7,976**	**(212)**	**1,465**
Total franchised track access and grant income	**5,744**	**5,852**	**(108)**	**28,270**	**28,441**	**(171)**	**5,649**
Other single till income							
Property income	1,770	395	1,375	3,158	1,729	1,429	369
Freight income	66	109	(43)	321	454	(133)	60
Open access income	35	31	4	168	152	16	38
Stations income	271	254	17	1,326	1,265	61	263
Facility and financing charges	126	177	(51)	451	683	(232)	144
Depots Income	82	61	21	371	309	62	84
Other income	12	15	(3)	76	75	1	13
Total other single till income	**2,362**	**1,042**	**1,320**	**5,871**	**4,667**	**1,204**	**971**
Total income	**8,106**	**6,894**	**1,212**	**34,141**	**33,108**	**1,033**	**6,620**

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

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity), lower financing charges income (offset by lower interest costs), lower property rental income (due to not achieving growth expected by the regulator and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail’s commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the items noted above, namely lower traction electricity income, freight revenue, lower income received from financing arrangements which has partly been offset by additional income from offering additional services to operators. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with the largest contribution from higher traction electricity income, which is offset by additional costs Network Rail has to pay to acquire the electricity from suppliers.

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

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was higher than the determination this year. Network Rail has earned additional income from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. This year was also the first ever that additional income was earned from the operations commencing on the Eastern section of the Crossrail line. These gains have been partly offset by differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges for the control period are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services in the London North West route, along with income this year from services on the Crossrail line. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

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

In £m 2018-19 prices unless stated

(5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected this year. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2018/19 which necessitated extra disruptive possessions and also partly because increases in traffic assumed by the regulator in the determination over the past two years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. Turnover was lower across the control period as a result of the lower traffic growth in the final two years of control period 5. Income generated is in line with the previous year.

(6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

(7) Capacity charge – in the current year this is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2018/19 which necessitated extra disruptive possessions and also partly because increases in traffic assumed by the regulator in the determination over the past 2 years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. As a result of the lower income in the current year, revenue for the control period was lower than the regulatory assumption. The aforementioned reductions in the current year compared to the ORR target offset the benefits from additional services and passenger growth earlier in the control period. There has been an increase in the amount earned in 2018/19 compared to the previous year. The extra services introduced through the May 2018 timetable was the main contributor. The prior year comparison also suffered from reductions in services caused by extreme weather, notably Storm Emma at the end of February/ start of March 2018.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The variances in the current year can be attributed to this technicality. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was consistent with the previous year, which was in line with the regulator's assumption.

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

In £m 2018-19 prices unless stated

(9) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate. This planned disposal of over 5,000 commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction at some £1.4bn makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income has been lower than the determination target this year with additional property sales partly mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, there is a favourable variance to the regulatory target which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the first half of CP5. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved, including some freight sites.

(10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing by around 80 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has decreased around 25 per cent this control period. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. There has been an increase in freight income compared to the previous year. The improvement is mainly due to favourable settlement of commercial disputes and extra traction electricity income (offset by higher traction electricity costs reported in Statement 7a).

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

In £m 2018-19 prices unless stated

(11) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target in both the current year and the control period. This has been most evident in Anglia with additional income made from services provided to London Underground. Income is slightly lower than the previous year due to lower income earned from re-charging operators for the electricity they use.

(12) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of certain stations (Reading, Bristol, Clapham Junction and Guildford) from franchised to managed meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. In the control period. Station income this control period has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations earlier in the control period along with the benefits of transferring Clapham Junction and Guildford at the start of 2018/19. This has been augmented by redeveloping certain managed stations partly offset by the transfer of stations to the franchisee in the Anglia route. Income is higher than the prior year mainly as a result of the change in the status of Clapham Junction and Guildford station as noted above.

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

In £m 2018-19 prices unless stated

(13) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this year and in the control period for both Facility fees and Financing charges. The former is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and across the control period. The reduction in the number of schemes is partly due to constraints over Network Rail's funding following increases in the enhancement portfolio costs, schedule 8, operations and underlying renewals costs. In addition, schemes are only undertaken if there is a robust business case to support the investment so whilst there is lower income reported here there is also a saving in enhancements investment. The lower Financing charges arose for both sub-categories: Crossrail finance charge and Welsh Valley finance charge. For the former the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. As noted in previous years' Regulatory financial statements, Network Rail repaid some of loan owing to Crossrail Limited in 2016/17meaning it was able to charge Crossrail Limited some of the financing costs. Further repayments occurred in 2017/18. This has meant that income received from Crossrail Limited has been significantly lower than the regulator anticipated this control period, albeit with a subsequent saving in interest costs incurred (as reported in Statement 4). Income was also lower than the regulator assumed for Welsh Valley finance charge. At the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainly over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5). Income was lower than the previous year mainly due to lower income received through Crossrail financing charges, which finished during the year in line with the contractual arrangement.

(14) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and London North East as well as benefits following the development of Reading depot in Western. Income is broadly in line with the previous year. The slight reduction reflects some one-off benefits reported in 2017/18 as a result of settlement of commercial disputes.

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

In £m 2018-19 prices unless stated

(15) Oher income – this category includes the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Income this year was lower than the regulator expected. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed sets out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Whilst this arrangement has impacted income earned over the control period, Network Rail have been able to enact efficiency strategies to alleviate the reduced turnover and so there are minimal differences to the determination targets across control period 5. Income is broadly in line with the prior year.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	302	392	(90)	1,446	1,704	(258)	299
Property sales	1,468	38	1,430	1,712	192	1,520	70
Adjustment for commercial opex	-	(35)	35	-	(167)	167	-
Total property income	**1,770**	**395**	**1,375**	**3,158**	**1,729**	**1,429**	**369**
Freight income							
Freight variable usage charge	50	73	(23)	248	322	(74)	47
Freight traction electricity charges	7	14	(7)	30	52	(22)	5
Freight electrification asset usage charge	-	1	(1)	-	5	(5)	-
Freight capacity charge	4	8	(4)	18	31	(13)	4
Freight only line charge	1	4	(3)	8	18	(10)	1
Freight specific charge	-	7	(7)	-	13	(13)	-
Freight other income	3	-	3	11	-	11	2
Freight coal spillage charge	1	2	(1)	6	13	(7)	1
Total freight income	**66**	**109**	**(43)**	**321**	**454**	**(133)**	**60**
Open access income							
Variable usage charge income	7	2	5	32	12	20	7
Open access capacity charge	2	1	1	9	7	2	2
Open access traction electricity charges	6	7	(1)	24	29	(5)	8
Fixed contractual contribution	20	21	(1)	103	104	(1)	21
Open access other income	-	-	-	-	-	-	-
Total open access income	**35**	**31**	**4**	**168**	**152**	**16**	**38**
Stations income							
Managed stations income							
Long term charge	36	34	2	174	170	4	34
Qualifying expenditure	69	44	25	311	221	90	63
Total managed stations income	105	78	27	485	391	94	97
Franchised stations income							
Long term charge	118	126	(8)	604	628	(24)	119
Stations lease income	48	50	(2)	237	246	(9)	47
Total franchised stations income	166	176	(10)	841	874	(33)	166
Total stations income	**271**	**254**	**17**	**1,326**	**1,265**	**61**	**263**
Facility and financing charges							
Facility charges	59	69	(10)	288	312	(24)	58
Crossrail finance charge	67	95	(28)	163	345	(182)	86
Welsh Valleys finance charge	-	13	(13)	-	26	(26)	-
Total facility and financing charges	**126**	**177**	**(51)**	**451**	**683**	**(232)**	**144**
Depots income	**82**	**61**	**21**	**371**	**309**	**62**	**84**
Other	**12**	**15**	**(3)**	**76**	**75**	**1**	**13**
Total other single till income	**2,362**	**1,042**	**1,320**	**5,871**	**4,667**	**1,204**	**971**

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

In £m 2018-19 prices unless stated

Notes:

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

Comments:

(1) Overall, single till income is higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund the ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income was lower than expected mostly due to lower freight income (as a result of structural declines in the coal transportation market), lower property rental turnover and lower financing income (offset by savings in interest costs). These were partly offset by extra income earned from offering additional services to operators. Income for the control period is higher than the regulatory assumption mostly due to the extra property sales income mentioned above. Reducing the impact of this, income is lower than the regulator expected due to lower Crossrail finance income (which is offset by interest cost savings), lower freight income (due to the aforementioned structural decline in key markets) and lower property rental income partly alleviated by extra station and depot services offered to operators and more property sales. Income is higher than the previous year due to additional income earned from disposing of a large section of the property estate. Adjusting for the impact of this transaction, income earned was slightly lower than last year due to lower earned from Crossrail finance charges (which is largely offset by higher financing costs reported in Statement 4).

(2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is below the regulatory expectation for both current year and the control period with the gap to the determination widening with each passing year of control period 5. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Income was in line with the previous year. The significant asset divestments made in the year resulted in reduced income towards the end of the year which was offset by higher revenue generated earlier in the year.

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

In £m 2018-19 prices unless stated

(3) Property sales – property disposals in the current year include the widely-reported divestment of large parts of the commercial estate. This planned disposal of over 5,000 commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction at some £1.4bn makes comparisons with the determination or the previous year meaningless. Excluding the impact of the asset divestment programme income was higher than the previous year due to some additional disposals being achieved, including some freight sites. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, there is a favourable variance to the regulatory target which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the first half of CP5.

(4) Freight Income – this is well below the regulator’s determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing by around 80 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has decreased around 25 per cent this control period. The regulator’s determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator’s assumption for the whole control period. There has been an increase in freight income compared to the previous year. The improvement is mainly due to favourable settlement of commercial disputes and extra traction electricity income (offset by higher traction electricity costs reported in Statement 7a).

(5) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target in both the current year and the control period. This has been most evident in Anglia with additional income made from services provided to London Underground. Income is slightly lower than the previous year due to lower income earned from re-charging operators for the electricity they use.

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

In £m 2018-19 prices unless stated

(6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption in both the current year and the control period. The largest contribution to the favourable position this control period comes from the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations in early in control period 5. The current year position has been bolstered by a change in Clapham Junction and Guildford stations which came into effect from 1 April 2018. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. The increase on the previous year is predominately due to the aforementioned reclassification of Clapham Junction and Guildford stations in the Wessex route.

(7) Franchised stations – long term charge – income in the year was lower than the regulatory target. The transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which was not foreseen in the determination reduced income. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these responsibilities. This is augmented by the transfer of status of Reading, Bristol, Clapham Junction and Guildford stations from Franchised stations to Managed stations. The same factors have contributed to the lower income for the control period compared to the regulator’s assumption. Income was broadly in line with the previous year.

(8) Franchised stations – Stations Lease Income – income has fallen slightly short of the regulatory target in both the current year and the control period mostly as a result of the transfer of stations (Bristol, Reading, Clapham Junction and Guildford) from Franchised stations to Managed stations as well as the transfer of Anglia stations to the franchisee as noted above. Income is broadly in line with the previous year.

(9) Facility charges – these are lower than the determination expected as Network Rail has undertaken fewer investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole. The reduction in the number of schemes is partly due to constraints over Network Rail’s funding following increases in the enhancement portfolio costs, schedule 8, operations and underlying renewals costs. In addition, schemes are only undertaken if there is a robust business case to support the investment so whilst there is lower income reported here there is also a saving in enhancements investment. Revenue earned this year was in line with 2017/18.

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

In £m 2018-19 prices unless stated

Other income – this category includes

(10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. As noted in previous years' Regulatory financial statements, Network Rail repaid some of loan owing to Crossrail Limited in 2016/17 meaning it was able to charge Crossrail Limited some of the financing costs. Further repayments occurred in 2017/18. This has meant that income received from Crossrail Limited has been significantly lower than the regulator anticipated this control period, albeit with a subsequent saving in interest costs incurred (as reported in Statement 4). Income this year is lower than the previous year as the income received finished during the year in line with the contractual arrangement.

(11) Welsh Valleys finance charge – at the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainly over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year of the control period. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).

(12) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and London North East as well as benefits following the development of Reading depot in Western. Income is broadly in line with the previous year. The slight reduction reflects some one-off benefits reported in 2017/18 as a result of settlement of commercial disputes.

(13) Other income – this category includes the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. Income this year was lower than the regulator expected. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed sets out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Whilst this arrangement has impacted income earned over the control period, Network Rail have been able to enact efficiency strategies to alleviate the reduced turnover and so there are minimal differences to the determination targets across control period 5. Income is broadly in line with the prior year.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Arriva Trains Wales						
Variable Usage Charges	3.4	3.6	3.5	3.5	2.1	16.1
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	4.3	4.5	4.5	4.3	2.7	20.3
Fixed Charges	20.2	15.5	16.4	19.2	24.0	95.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	10.9	11.2	11.0	10.8	6.8	50.7
Station QX	0.4	0.4	0.5	0.5	0.3	2.1
Other Charges	1.8	1.5	1.8	1.8	1.0	7.9
Total income	**41.0**	**36.7**	**37.7**	**40.1**	**36.9**	**192.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Transport For Wales						
Variable Usage Charges	-	-	-	-	1.3	1.3
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	-	-	-	1.7	1.7
Fixed Charges	-	-	-	-	15.0	15.0
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	4.3	4.3
Station QX	-	-	-	-	0.2	0.2
Other Charges	-	-	-	-	0.8	0.8
Total income	**-**	**-**	**-**	**-**	**23.3**	**23.3**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
C2C						
Variable Usage Charges	1.9	2.1	2.2	2.3	2.3	10.8
Traction Electricity Charges	7.0	8.1	8.7	8.9	9.8	42.5
Electrification Asset Usage Charges	0.4	0.5	0.5	0.5	0.6	2.5
Capacity Charges	2.6	2.8	2.8	2.8	2.7	13.7
Fixed Charges	5.3	4.0	4.4	5.1	9.8	28.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	2.9	-	-	-	-	2.9
Station QX	-	-	0.1	0.1	-	0.2
Other Charges	1.2	1.4	1.1	1.4	1.5	6.6
Total income	**21.3**	**18.9**	**19.8**	**21.1**	**26.7**	**107.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Chiltern						
Variable Usage Charges	2.3	2.5	2.6	2.7	2.7	12.8
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.8	1.9	2.8	2.6	2.6	11.7
Fixed Charges	17.2	19.2	23.6	22.7	37.6	120.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	4.0	4.2	4.2	4.1	4.1	20.6
Station QX	-	-	-	-	-	-
Other Charges	0.2	-	0.2	2.6	0.4	3.4
Total income	**25.5**	**27.8**	**33.4**	**34.7**	**47.4**	**168.8**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Cross Country						
Variable Usage Charges	10.6	10.7	10.6	10.2	10.4	52.5
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	24.2	24.7	24.4	23.9	24.2	121.4
Fixed Charges	24.2	18.5	17.6	23.1	46.2	129.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	1.7	1.8	1.7	1.7	1.7	8.6
Station QX	3.2	3.7	4.5	4.5	4.4	20.3
Other Charges	-	-	-	-	-	-
Total income	**63.9**	**59.4**	**58.8**	**63.4**	**86.9**	**332.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
East Coast Main Line Rail						
Variable Usage Charges	18.9	-	-	-	-	18.9
Traction Electricity Charges	20.4	-	-	-	-	20.4
Electrification Asset Usage Charges	1.7	-	-	-	-	1.7
Capacity Charges	35.1	-	-	-	-	35.1
Fixed Charges	27.1	-	-	-	-	27.1
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	8.0	-	-	-	-	8.0
Station QX	2.8	-	-	-	-	2.8
Other Charges	1.3	-	-	-	-	1.3
Total income	**115.3**	**-**	**-**	**-**	**-**	**115.3**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin East Coast						
Variable Usage Charges	1.8	19.5	18.4	18.2	5.8	63.7
Traction Electricity Charges	1.9	22.0	22.0	20.0	6.7	72.6
Electrification Asset Usage Charges	0.1	1.8	1.9	1.8	0.6	6.2
Capacity Charges	3.3	39.2	38.9	38.9	12.5	132.8
Fixed Charges	2.6	22.8	24.0	28.1	18.1	95.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	0.7	7.9	8.3	7.3	2.2	26.4
Station QX	0.3	2.7	2.7	2.8	0.9	9.4
Other Charges	0.1	1.3	1.4	1.6	0.5	4.9
Total income	**10.8**	**117.2**	**117.6**	**118.7**	**47.3**	**411.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London North Eastern Railway						
Variable Usage Charges	-	-	-	-	12.9	12.9
Traction Electricity Charges	-	-	-	-	17.1	17.1
Electrification Asset Usage Charges	-	-	-	-	1.2	1.2
Capacity Charges	-	-	-	-	27.1	27.1
Fixed Charges	-	-	-	-	40.6	40.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	5.3	5.3
Station QX	-	-	-	-	2.0	2.0
Other Charges	-	-	-	-	0.6	0.6
Total income	**-**	**-**	**-**	**-**	**106.8**	**106.8**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
East Midlands						
Variable Usage Charges	8.3	8.4	8.2	8.0	8.1	41.0
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	18.8	19.3	18.9	18.6	18.4	94.0
Fixed Charges	16.5	12.5	13.1	15.5	33.5	91.1
Station Facility Charge	1.5	4.6	12.2	8.5	8.1	34.9
Station Long Term Charges	6.0	7.3	5.9	5.8	5.9	30.9
Station QX	0.3	0.3	0.3	0.3	0.3	1.5
Other Charges	7.3	7.2	7.3	7.2	7.2	36.2
Total income	**58.7**	**59.6**	**65.9**	**63.9**	**81.5**	**329.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
First Capital Connect						
Variable Usage Charges	3.4	-	-	-	-	3.4
Traction Electricity Charges	10.3	-	-	-	-	10.3
Electrification Asset Usage Charges	0.7	-	-	-	-	0.7
Capacity Charges	18.7	-	-	-	-	18.7
Fixed Charges	10.3	-	-	-	-	10.3
Station Facility Charge	0.4	-	-	-	-	0.4
Station Long Term Charges	5.1	-	-	-	-	5.1
Station QX	2.2	-	-	-	-	2.2
Other Charges	1.0	-	-	-	-	1.0
Total income	**52.1**	**-**	**-**	**-**	**-**	**52.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Govia Thameslink Railway						
Variable Usage Charges	4.7	13.3	17.2	18.1	20.2	73.5
Traction Electricity Charges	18.8	54.1	65.3	64.8	83.3	286.3
Electrification Asset Usage Charges	0.9	2.4	2.9	3.1	3.6	12.9
Capacity Charges	26.3	72.6	87.2	89.9	90.4	366.4
Fixed Charges	12.3	28.0	34.2	40.5	85.4	200.4
Station Facility Charge	0.5	3.1	4.8	4.5	4.6	17.5
Station Long Term Charges	5.8	25.1	38.3	34.4	34.9	138.5
Station QX	2.1	8.2	9.8	9.3	10.1	39.5
Other Charges	3.2	3.4	9.3	16.8	17.5	50.2
Total income	**74.6**	**210.2**	**269.0**	**281.4**	**350.0**	**1,185.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
First Great Western						
Variable Usage Charges	20.6	20.9	21.1	20.6	18.8	102.0
Traction Electricity Charges	-	-	0.2	3.3	14.2	17.7
Electrification Asset Usage Charges	-	-	-	0.2	0.8	1.0
Capacity Charges	51.3	53.3	52.7	51.6	49.8	258.7
Fixed Charges	34.3	25.5	26.0	32.4	66.7	184.9
Station Facility Charge	2.1	2.2	2.2	2.1	1.9	10.5
Station Long Term Charges	18.2	18.3	18.1	17.5	16.7	88.8
Station QX	8.6	8.6	8.4	8.2	8.0	41.8
Other Charges	28.1	24.0	23.9	26.7	22.9	125.6
Total income	**163.2**	**152.8**	**152.6**	**162.6**	**199.8**	**831.0**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Greater Anglia						
Variable Usage Charges	11.6	10.7	5.8	-	-	28.1
Traction Electricity Charges	34.3	27.5	14.7	-	-	76.5
Electrification Asset Usage Charges	2.4	2.1	1.1	-	-	5.6
Capacity Charges	19.2	15.6	8.2	-	-	43.0
Fixed Charges	28.9	19.1	10.5	-	-	58.5
Station Facility Charge	1.1	1.4	0.7	-	-	3.2
Station Long Term Charges	3.9	2.6	1.3	-	-	7.8
Station QX	3.1	2.2	1.1	-	-	6.4
Other Charges	3.1	4.7	2.7	-	-	10.5
Total income	**107.6**	**85.9**	**46.1**	**-**	**-**	**239.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Abellio East Anglia						
Variable Usage Charges	-	-	4.7	10.4	10.4	25.5
Traction Electricity Charges	-	-	14.1	28.2	30.8	73.1
Electrification Asset Usage Charges	-	-	0.9	2.1	2.0	5.0
Capacity Charges	-	-	6.8	14.2	14.4	35.4
Fixed Charges	-	-	9.2	22.8	47.2	79.2
Station Facility Charge	-	-	0.6	1.3	1.4	3.3
Station Long Term Charges	-	-	0.9	2.2	2.3	5.4
Station QX	-	-	0.9	2.1	2.2	5.2
Other Charges	-	-	2.4	5.5	5.4	13.3
Total income	**-**	**-**	**40.5**	**88.8**	**116.1**	**245.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London Midland						
Variable Usage Charges	6.5	7.1	7.1	4.8	-	25.5
Traction Electricity Charges	15.2	17.1	16.5	9.5	-	58.3
Electrification Asset Usage Charges	0.9	1.0	1.0	0.7	-	3.6
Capacity Charges	37.4	37.6	37.7	25.8	-	138.5
Fixed Charges	20.0	15.3	15.3	11.2	-	61.8
Station Facility Charge	0.3	0.3	0.2	0.2	-	1.0
Station Long Term Charges	11.6	11.9	11.8	8.0	-	43.3
Station QX	5.2	6.4	7.3	5.0	-	23.9
Other Charges	3.6	3.6	3.5	2.5	-	13.2
Total income	**100.7**	**100.3**	**100.4**	**67.7**	**-**	**369.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
West Midlands Trains						
Variable Usage Charges	-	-	-	2.1	7.1	9.2
Traction Electricity Charges	-	-	-	6.9	18.6	25.5
Electrification Asset Usage Charges	-	-	-	0.3	1.1	1.4
Capacity Charges	-	-	-	11.0	37.1	48.1
Fixed Charges	-	-	-	5.1	33.6	38.7
Station Facility Charge	-	-	-	0.1	0.4	0.5
Station Long Term Charges	-	-	-	4.0	12.1	16.1
Station QX	-	-	-	1.9	7.2	9.1
Other Charges	-	-	-	1.4	4.9	6.3
Total income	**-**	**-**	**-**	**32.8**	**122.1**	**154.9**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London Overground						
Variable Usage Charges	0.8	1.2	0.9	-	-	2.9
Traction Electricity Charges	4.5	7.6	5.1	-	-	17.2
Electrification Asset Usage Charges	0.1	0.3	0.2	-	-	0.6
Capacity Charges	2.5	3.2	2.1	-	-	7.8
Fixed Charges	4.0	4.3	2.8	-	-	11.1
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	3.8	4.7	2.9	-	-	11.4
Station QX	0.4	1.0	0.6	-	-	2.0
Other Charges	0.6	0.6	0.5	-	-	1.7
Total income	**16.7**	**22.9**	**15.1**	**-**	**-**	**54.7**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Arriva Rail London						
Variable Usage Charges	-	-	0.5	1.4	1.5	3.4
Traction Electricity Charges	-	-	3.5	7.7	9.7	20.9
Electrification Asset Usage Charges	-	-	0.1	0.3	0.3	0.7
Capacity Charges	-	-	1.1	3.2	3.3	7.6
Fixed Charges	-	-	1.8	5.5	11.0	18.3
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	1.9	4.5	4.6	11.0
Station QX	-	-	0.4	1.0	1.2	2.6
Other Charges	-	-	0.3	0.9	0.9	2.1
Total income	**-**	**-**	**9.6**	**24.5**	**32.5**	**66.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Merseyrail						
Variable Usage Charges	0.8	0.8	0.8	0.8	0.9	4.1
Traction Electricity Charges	6.0	6.1	5.9	5.9	6.8	30.7
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	0.5	0.5	0.5	0.5	0.5	2.5
Fixed Charges	3.6	2.7	2.8	3.2	6.6	18.9
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	8.5	8.5	8.4	8.2	8.3	41.9
Station QX	-	-	-	-	-	-
Other Charges	0.6	0.8	0.7	0.4	1.5	4.0
Total income	**20.1**	**19.5**	**19.2**	**19.1**	**24.7**	**102.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
MTR Crossrail						
Variable Usage Charges	-	0.6	0.7	0.7	1.0	3.0
Traction Electricity Charges	-	3.7	4.5	4.3	6.7	19.2
Electrification Asset Usage Charges	-	0.2	0.2	0.3	0.3	1.0
Capacity Charges	-	3.1	3.7	3.8	5.5	16.1
Fixed Charges	-	1.8	2.2	2.5	31.1	37.6
Station Facility Charge	-	-	-	0.1	0.2	0.3
Station Long Term Charges	-	0.8	0.9	1.2	2.4	5.3
Station QX	-	0.6	0.7	0.8	1.3	3.4
Other Charges	-	-	-	-	0.1	0.1
Total income	**-**	**10.8**	**12.9**	**13.7**	**48.6**	**86.0**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Northern						
Variable Usage Charges	4.7	5.3	5.8	5.4	5.7	26.9
Traction Electricity Charges	4.8	6.7	7.8	6.8	8.3	34.4
Electrification Asset Usage Charges	0.2	0.3	0.4	0.4	0.4	1.7
Capacity Charges	9.0	9.1	9.5	8.9	9.2	45.7
Fixed Charges	27.4	21.0	21.7	26.6	56.1	152.8
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	17.6	17.8	18.4	18.1	18.4	90.3
Station QX	3.3	3.3	3.6	3.6	3.8	17.6
Other Charges	5.7	5.6	7.0	7.0	7.0	32.3
Total income	**72.7**	**69.1**	**74.2**	**76.8**	**108.9**	**401.7**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Scotrail						
Variable Usage Charges	0.6	-	-	-	-	0.6
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	0.1	-	-	-	-	0.1
Capacity Charges	0.4	-	-	-	-	0.4
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	0.1	-	-	-	-	0.1
Other Charges	-	-	-	-	-	-
Total income	**1.2**	**-**	**-**	**-**	**-**	**1.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Serco Sleeper						
Variable Usage Charges	-	0.7	0.8	0.6	0.7	2.8
Traction Electricity Charges	-	-	0.9	0.8	1.1	2.8
Electrification Asset Usage Charges	-	-	0.2	0.1	0.1	0.4
Capacity Charges	-	0.1	0.4	0.4	0.4	1.3
Fixed Charges	-	-	2.4	7.3	11.0	20.7
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	0.1	-	-	0.1
Station QX	-	-	0.1	0.1	0.1	0.3
Other Charges	-	-	-	-	-	-
Total income	**-**	**0.8**	**4.9**	**9.3**	**13.4**	**28.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South Eastern						
Variable Usage Charges	9.2	10.5	9.9	9.9	10.1	49.6
Traction Electricity Charges	35.4	37.8	41.2	42.1	48.8	205.3
Electrification Asset Usage Charges	1.0	1.1	1.1	1.2	1.2	5.6
Capacity Charges	17.6	18.5	16.9	16.5	16.5	86.0
Fixed Charges	25.4	19.4	20.5	24.5	49.1	138.9
Station Facility Charge	0.1	0.1	0.1	0.1	0.1	0.5
Station Long Term Charges	26.0	25.4	25.3	24.9	24.9	126.5
Station QX	6.2	6.0	9.2	9.3	9.7	40.4
Other Charges	8.2	7.8	8.7	8.4	8.7	41.8
Total income	**129.1**	**126.6**	**132.9**	**136.9**	**169.1**	**694.6**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South West Trains						
Variable Usage Charges	13.1	13.1	13.4	5.0	-	44.6
Traction Electricity Charges	40.3	42.7	42.2	10.8	-	136.0
Electrification Asset Usage Charges	1.1	1.1	1.2	0.5	-	3.9
Capacity Charges	28.0	28.3	28.0	10.2	-	94.5
Fixed Charges	26.9	20.5	21.8	9.5	-	78.7
Station Facility Charge	11.4	7.9	11.1	3.9	-	34.3
Station Long Term Charges	30.3	32.0	31.3	11.7	-	105.3
Station QX	4.6	5.4	5.1	1.7	-	16.8
Other Charges	8.4	11.2	9.9	3.5	-	33.0
Total income	**164.1**	**162.2**	**164.0**	**56.8**	**-**	**547.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
South Western Railway						
Variable Usage Charges	-	-	-	8.2	13.7	21.9
Traction Electricity Charges	-	-	-	29.3	45.5	74.8
Electrification Asset Usage Charges	-	-	-	0.8	1.4	2.2
Capacity Charges	-	-	-	16.4	26.9	43.3
Fixed Charges	-	-	-	16.0	53.3	69.3
Station Facility Charge	-	-	-	6.6	10.9	17.5
Station Long Term Charges	-	-	-	19.5	30.5	50.0
Station QX	-	-	-	2.7	9.0	11.7
Other Charges	-	-	-	7.3	12.3	19.6
Total income	**-**	**-**	**-**	**106.8**	**203.5**	**310.3**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Southern						
Variable Usage Charges	9.5	3.9	-	-	-	13.4
Traction Electricity Charges	30.8	12.9	-	-	-	43.7
Electrification Asset Usage Charges	1.0	0.4	-	-	-	1.4
Capacity Charges	45.4	18.8	-	-	-	64.2
Fixed Charges	19.8	4.7	-	-	-	24.5
Station Facility Charge	2.4	0.9	-	-	-	3.3
Station Long Term Charges	23.5	7.4	-	-	-	30.9
Station QX	3.4	1.1	-	-	-	4.5
Other Charges	1.8	0.5	-	-	-	2.3
Total income	**137.6**	**50.6**	**-**	**-**	**-**	**188.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Transpennine						
Variable Usage Charges	4.7	4.8	4.4	3.3	4.3	21.5
Traction Electricity Charges	2.4	2.5	2.6	1.7	1.9	11.1
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	11.5	11.8	11.2	11.1	13.3	58.9
Fixed Charges	12.0	10.0	11.1	13.1	27.4	73.6
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	4.0	3.9	3.4	3.4	3.4	18.1
Station QX	1.6	1.9	1.7	1.6	1.6	8.4
Other Charges	0.1	0.1	0.1	0.1	0.1	0.5
Total Turnover	**36.4**	**35.1**	**34.6**	**34.4**	**52.1**	**192.6**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin West Coast						
Variable Usage Charges	31.6	30.9	30.7	29.5	27.0	149.7
Traction Electricity Charges	41.5	45.1	50.3	36.8	47.3	221.0
Electrification Asset Usage Charges	3.1	3.2	3.2	3.1	3.2	15.8
Capacity Charges	72.6	73.6	72.7	70.2	71.9	361.0
Fixed Charges	46.2	35.2	37.0	43.0	91.1	252.5
Station Facility Charge	9.4	9.5	9.4	9.3	9.2	46.8
Station Long Term Charges	11.9	12.0	11.9	11.8	11.3	58.9
Station QX	6.1	6.3	6.7	6.6	6.5	32.2
Other Charges	1.5	1.5	1.7	0.1	0.1	4.9
Total Turnover	**223.9**	**217.3**	**223.6**	**210.4**	**267.6**	**1,142.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Non-Franchised Train Operators						
Variable Usage Charges	2.8	5.0	6.0	5.8	5.6	25.2
Traction Electricity Charges	3.4	1.4	2.8	3.0	4.0	14.6
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.4	1.9	2.0	1.9	1.8	9.0
Fixed Charges	20.7	20.5	20.1	20.1	20.1	101.5
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	1.7	1.2	1.5	1.4	1.5	7.3
Station QX	0.7	- 0.2	0.2	0.3	0.3	1.3
Other Charges	0.2	0.2	0.2	0.3	0.3	1.2
Total Turnover	**30.9**	**30.0**	**32.8**	**32.8**	**33.6**	**160.1**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Charter Train Operators						
Variable Usage Charges	0.9	0.6	0.6	0.6	0.7	3.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	-	-	-	-	-
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total Turnover	**0.9**	**0.6**	**0.6**	**0.6**	**0.7**	**3.4**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Freight Operating Companies						
Variable Usage Charges	56.5	53.3	48.2	50.7	53.3	262.0
Traction Electricity Charges	7.1	5.6	5.4	6.5	7.9	32.5
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	3.4	4.0	3.8	3.7	3.7	18.6
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Other Charges	7.6	4.2	3.8	4.2	5.3	25.1
Total Turnover	**74.7**	**67.2**	**61.3**	**65.2**	**70.3**	**338.7**

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

In £m 2018-19 prices unless stated

Notes:

(1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.

(2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.

(3) No PR13 comparison has been provided by the ORR for this schedule.

(4) Fixed Charges – there has been an increase in Fixed charges across most operators compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a.

(5) Changes in Freight income and Open access operator income are discussed in more detail in Statement 6a.

(6) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category. Compared to the previous year, Govia has some additional income in Other charges relating to new depot facilities. This has been partly offset by reduced Station Long Term Charges. The 2016/17 figures benefitted from settlement of previous claims and so income was artificially high in that year.

(7) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.

(8) During 2018/19 responsibility for the London North East rail franchise transferred from Virgin East Coast to London North Eastern Railway. As a result, income received from Virgin East Coast has dropped noticeably compared to 2017/18.

(9) During 2018/19, London North Eastern Railway was created to operate the London North East rail franchise whilst the government assessed franchising options for this route. Therefore, income is recognised for the first time against this operator in this year's Regulatory Financial Statements.

(10) In 2015/16 MTR Crossrail started to operate services so was shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator in 2015/16 compared to 2014/15. Income is higher this year compared to earlier years not only as a result of the aforementioned increase in Fixed charges affecting almost all operators, but also due to increased traffic on the Crossrail route in 2018/19.

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

In £m 2018-19 prices unless stated

(11) Abelio East Anglia replaced Greater Anglia as the franchise operator during 2016/17 which accounts for the movements between 2015/16 and 2016/17 for these two operators.

(12) In 2015/16 a number of stations were transferred to c2c on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2016/17 compared to 2014/15.

(13) In 2016/17, Arriva Rail London assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground in 2016/17 compared to 2015/16 with a corresponding increase in Arriva Rail London. A full year of income is included for Arriva Rail London in 2017/18, which accounts for the majority of the increase between these years.

(14) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station. This included settlement of charges relating to services rendered in 2015/16. Consequently, income recognised in 2017/18 was lower than 2016/17.

(15) In 2017/18, West Midlands Trains replaced London Midland as the franchise operator on the London North West route and so was included in the Regulatory Financial Statements for the first time that year. This also resulted in a decrease in London Midland income in 2017/18 compared to the previous year. Income is higher in the current year than 2017/18 as the new franchise was in place for the whole of the current year, as well as the aforementioned increases in Fixed charges affecting almost all operators.

(16) In 2017/18, South Western Railway replaced South West Trains as the principle operator in the Wessex route. Consequently, the income earned by the latter was shown for the first time in 2017/18, whilst the former has a noticeable year-on-year decrease in their turnover in the above table in those years. Income is higher in the current year than 2017/18 as the new franchise was in place for the whole of the current year.

(17) Arriva Trains Wales – this franchise ended in October 2018. Responsibility for operations in this area now resides with Transport for Wales, which means that Arriva Trains Wales has a reduction in income this year compared to the previous year.

(18) Transport for Wales – this franchise commenced in October 2018, so this is the first year that income has been included in the Regulatory Financial Statements.

(19) Chiltern – The Fixed Supplementary income which was previously classed as Other Charges in this statement has now been classed as Fixed Charges for all years of the control period

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	259	190	(69)	1,289	1,083	(206)	258
Signalling shift managers	16	13	(3)	83	68	(15)	17
Local operations managers	17	15	(2)	96	77	(19)	20
Controllers	41	31	(10)	188	158	(30)	40
Electrical control room operators	15	11	(4)	67	54	(13)	13
Total signaller expenditure	**348**	**260**	**(88)**	**1,723**	**1,440**	**(283)**	**348**
Non-signaller expenditure							
Mobile operations managers	38	28	(10)	184	153	(31)	39
Managed stations	66	34	(32)	292	185	(107)	58
Performance	13	13	-	70	69	(1)	13
Customer relationship executives	11	6	(5)	37	33	(4)	8
Route enhancement managers	6	-	(6)	11	-	(11)	-
Weather	15	17	2	71	93	22	14
Other	42	11	(31)	187	59	(128)	39
Operations delivery	9	-	(9)	29	-	(29)	6
HQ - Operations services	4	-	(4)	9	-	(9)	1
HQ - Performance and planning	1	-	(1)	23	-	(23)	2
HQ - Stations and customer services	2	-	(2)	6	-	(6)	2
HQ - Other	137	25	(112)	341	138	(203)	85
Other operating income	(59)	(17)	42	(207)	(99)	108	(45)
Total non-signaller expenditure	**285**	**117**	**(168)**	**1,053**	**631**	**(422)**	**222**
Total network operations expenditure	**633**	**377**	**(256)**	**2,776**	**2,071**	**(705)**	**570**
Support costs							
Core support costs							
Human resources	17	51	34	128	285	157	16
Information management	64	54	(10)	308	295	(13)	57
Government and corporate affairs	9	17	8	55	90	35	8
Group strategy	11	11	-	37	55	18	7
Finance	25	25	-	107	135	28	23
Business services	21	13	(8)	89	68	(21)	16
Accommodation	67	67	-	371	356	(15)	71
Utilities	52	40	(12)	229	209	(20)	46
Insurance	17	42	25	149	231	82	34
Legal and inquiry	5	5	-	31	30	(1)	5
Safety and sustainable development	20	7	(13)	103	41	(62)	18
Strategic sourcing	13	8	(5)	39	46	7	6
Business change	3	3	-	12	16	4	4
Other corporate functions	53	3	(50)	191	16	(175)	38
Core support costs	**377**	**346**	**(31)**	**1,849**	**1,873**	**24**	**349**
Other support costs							
Asset management services	29	40	11	158	204	46	27
Network Rail telecoms	43	26	(17)	194	173	(21)	30
National delivery service	-	(2)	(2)	-	7	7	-
Infrastructure Projects	(21)	-	21	(115)	-	115	(22)
Commercial property	11	(5)	(16)	(3)	(21)	(18)	5
Group costs	(22)	(3)	19	(187)	(26)	161	(23)
Total other support costs	**40**	**56**	**16**	**47**	**337**	**290**	**17**
Total support costs	**417**	**402**	**(15)**	**1,896**	**2,210**	**314**	**366**
Traction electricity, industry costs and rates							
Traction electricity	380	496	116	1,599	1,945	346	302
Business rates	200	182	(18)	866	819	(47)	200
British transport police costs	78	64	(14)	407	343	(64)	81
RSSB costs	9	8	(1)	47	42	(5)	9
ORR licence fee and railway safety levy	14	16	2	78	83	5	16
Reporters fees	1	3	2	6	15	9	1
Other industry costs	4	2	(2)	20	11	(9)	4
Total traction electricity, industry costs and rates	**686**	**771**	**85**	**3,023**	**3,258**	**235**	**613**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**1,736**	**1,550**	**(186)**	**7,695**	**7,539**	**(156)**	**1,549**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a). Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(4) Network operations costs in 2018/19 are over 50 per cent higher than the regulator assumed. About one-fifth of this is due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination. Whilst core Signaller costs are consistent year-on-year, extra Managed stations have arisen from the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Also, Higher HQ – Other costs largely reflect expenses relating to commercial claims recognised this year as the control period draws to a close and additional costs incurred which have been offset by higher Other operating income this year.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. This year, for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

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

In £m 2018-19 prices unless stated

(6) Human resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year.

(7) Information management – costs are higher than the determination assumed this year mainly due to a larger IT estate as more programmes and systems are supported than the determination originally assumed. In addition, some extra investment has been undertaken this year to help generate efficiencies across the organisation next control period. The higher costs this year explain most of the variance to the regulatory target across the control period. Costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period 6.

(8) Government and corporate affairs – costs are notably lower than the determination in the year and control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Costs this year are in line with the previous year.

(9) Group strategy – this year, expenditure is consistent with the determination expectation. Costs have been lower than the ORR anticipated this control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

(10) Finance – costs were lower than the determination. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs between 2015/16 and 2017/18, part of the Group strategy team and Business Services in 2016/17.

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

In £m 2018-19 prices unless stated

(11) Business services – costs in this category are higher than the determination assumption this year. The higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption across the control period. Costs in the year are higher than the previous year due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(12) Accommodation – these property expenses were consistent with the determination this year. For the control period costs were higher than the regulatory target. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 17 per cent lower than the CP4 exit position by the end of control period 5, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the ambitious regulatory target. Costs are lower than the previous year with lower rents and service charges being negotiated for corporate offices.

(13) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

(14) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

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

In £m 2018-19 prices unless stated

(15) Legal and inquiry – costs for the current year are consistent with the determination expectation. However, this is a net position arising from both increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. This extra expense has been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Costs in the control period are slightly higher than the regulator assumed. This is a combination of the above factor as well as the incorporation of Business Change activities into this department for some of the earlier years of the control period. Expenses in the current year are consistent with the previous year.

(16) Safety and sustainable development - costs are much higher than the determination in the year and the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. Costs are largely in line with the previous year.

(17) Strategic sourcing – costs are higher than the determination assumption for the year. This includes some commercial and litigation claims included in this year. Across the control period savings have been made which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are higher than the previous year due to the aforementioned commercial and litigation claims.

(18) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6. Costs reported for Business change this year are in line with the previous year.

(19) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

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

In £m 2018-19 prices unless stated

(20) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(21) Network Rail telecoms – costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year.

(22) National Delivery Services – costs are in line with the previous year but slightly adverse to the regulatory assumption. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement. Support costs are in line with the previous year.

(23) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(24) Commercial Property – net costs is the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. These extra costs have negated savings achieved from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath). Net costs in the current year are higher than the previous year including the aforementioned transfer of Railway Heritage Trust activity this year.

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

In £m 2018-19 prices unless stated

(25) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in re-organisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. The credit recognised in Group this year is in line with the previous year.

(26) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(27) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(28) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency's revaluation exercise.

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

In £m 2018-19 prices unless stated

(29) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.

(30) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism has been slightly higher than the regulator's expectation across the control period. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry. Expenses are in line with the previous year.

(31) ORR licence fee and railway safety – costs this year are slightly lower than the regulator assumed, continuing the trend of the earlier years of the control period. Expenses are in line with the previous year.

(32) Reporters fees – once more, costs have been lower than the regulator expected for activity undertaken by organisations in their role as independent Reporters. The assumption made in the determination about the level of work Reporters would be contracted to undertake has proved incorrect. Costs are in line with the previous year.

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

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	278	278	276	284	287
MOMS	34	35	39	40	38
Control	48	49	50	56	57
Planning & Performance Staff Costs	30	37	37	44	42
Managed Stations Staff Costs	18	18	25	21	24
Operations Management Staff Costs	25	27	23	25	29
Other	59	92	95	100	156
Total operations & customer services costs	492	536	545	570	633
Total Network Operations	**492**	**536**	**545**	**570**	**633**
Support					
Human resources					
Functional support	16	17	16	15	16
Training (inc Westwood)	11	8	-	-	-
Graduates	-	2	-	-	-
Apprenticeships	8	8	-	-	-
Other	7	1	1	1	1
Total human resources	42	36	17	16	17
Information management					
Support	6	1	5	5	9
Projects	1	1	-	1	-
Licences	-	-	-	-	-
Business operations	60	59	54	51	54
Other	-	-	-	-	1
Total information management	67	61	59	57	64
Finance	17	18	24	23	25
Business Change	2	3	-	4	3
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	7	6	7	6	13
Planning & development	9	7	3	7	11
Safety & compliance	-	-	-	-	-
Other corporate services	15	16	16	19	21
Commercial property	77	67	71	75	78
Infrastructure Projects	(19)	(28)	(25)	(22)	(21)
Route Services	17	18	19	17	26
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	42	40	49	46	52
Network Rail Telecoms	49	43	29	30	43
Digital Railway	16	22	19	11	12
Safety Technical & Engineering	40	39	30	34	37
Government & Corporate Affairs	16	12	10	8	9
Business Services	15	12	25	16	21
Route Asset Management	-	1	(2)	3	6
Legal and inquiry	6	8	7	5	5
Group/central					
Pensions	-	-	-	-	-
Insurance	49	56	(8)	34	17
Redundancy/reorganisation costs	17	10	10	10	11
Staff incentives/Bonus Reduction	(25)	(6)	-	(8)	(3)
Accommodation & Support Recharges	(27)	(27)	(25)	(25)	(25)
Commercial claims settlements	-	(32)	(9)	(7)	-
ORR financial penalty	(24)	-	-	-	-
Other	3	(4)	(2)	7	(5)
Total group/central costs	(7)	(3)	(34)	11	(5)
Total support	**411**	**378**	**324**	**366**	**417**
Total network operations and support costs	**903**	**914**	**869**	**936**	**1,050**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) Network Operations – whilst core signaller costs are in line with the previous year, there has been a noticeable increase in Other costs this year. This includes the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Whilst this should result in additional income (as shown in Statement 6a), there are additional costs required to run the stations. Also, a number of commercial claims have been received this year as the control period draws to a close. There has also been additional investment in the System Operator function to develop capabilities ahead of the role it is required to play to support the industry in CP6.

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

(5) Human Resources – costs are in line with the previous year but noticeably lower than the early years of the control period. As noted in last year's Regulatory financial statements many of the responsibilities have been transferred from Human resources department to other areas of the organisation. As part of Network Rail's devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories compared to earlier in the control period due to the responsibility for these activities moving to Business services. Costs are in line with the previous year.

(6) Information management – costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period 6.

(7) Finance – costs increases during the control period have been the result of responsibilities transferring from other cost categories, including Railway Heritage Trust costs, parts of planning & regulation and parts of Shared Services. This extra scope has been offset by efficiencies made from improved working practices and tight control on headcount and staff costs.

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

In £m 2018-19 prices unless stated

(8) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department. As part of Network Rail's planning for CP6 a new Transformation and Efficiency directorate has been created. These costs are included in the Business change category from 2017/18 and have remained broadly similar this year.

(9) Planning & development – the costs in this area decreased in 2016/17 as some responsibilities were transferred to the Finance department. Over the final two years of the control period costs increased as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

(10) Route Services – costs are higher than the previous year after being relatively stable over the previous years of the control period. The increase this year arise primarily from routes increasing the size and scope of their support teams ahead of the challenges set out in the regulator's determination for control period 6.

(11) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. As noted in the prior year's Regulatory financial statements the comparatively lower costs in 2015/16 was due to lower market rates and some one-off benefits. Costs are higher than the previous year reflecting unfavourable market movements.

(12) Telecoms – costs are higher than the previous year which is mainly due to some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. There is a notable decrease in costs in 2016/17 which was largely driven by renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities. costs for the year are higher than the determination.

(13) Digital railway – costs are broadly similar to last year. As noted in the prior years' Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. Since then, more of the activity has been focused on delivery of physical projects and so is included within capital projects.

(14) Safety, Technical & Engineering - costs are in higher than the previous year. There has been extra investment this year in developing updated engineering standards ahead of the start of the new control period. Expenses were higher at the start of the control period which included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(15) Government & corporate affairs - costs are similar to the previous year. The reduction in costs compared to earlier years of the control period is mostly due to devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.

(16) Business services - costs in the year are higher than the previous year. This is mainly due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(17) Route asset management – costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

(18) Legal and inquiry – as noted above, Business change costs increased earlier in the control period as a result of the new Transformation and Efficiency directorate being included separately. Previously these costs were included within Legal and inquiry and so costs in this category reduced. Costs this year were in line with the previous year.

(19) Group – Insurance – costs are lower than last year. This is mainly due to some benefits arising from the latest actuarial assessment of the liabilities Network Rail face in these areas, most notably the costs to third parties that network Rail Insurance Limited (a wholly-owned subsidiary of Network Rail) are expected to incur. As reported in previous years Regulatory financial statements there was a benefit arising from the year end actuarial review of liabilities in 2016/17 which accounts for the lower cost in that year. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result, premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high-profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result, the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail's road fleet) which are now more expensive. In 2016/17, there was a significant benefit from the actuarial assessment of liabilities incurred by Network Rail under its insurance arrangements.

(20) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there were costs incurred in 2014/15 too. Since then, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least control period 6. Expenses in the current year are in line with the previous year and the general trend over the past few years.

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

In £m 2018-19 prices unless stated

(21) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower pay-outs under long-term incentive plans. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in 2017/18 mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. In the current year there was also a benefit of reduced performance-related payments made to staff, although the reduction was less than that witnessed in 2017/18.

(22) Group – commercial claims settlements – as noted in the previous year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance. In 2016/17, there were further contractual refinements for which Network Rail were compensated. The amount in 2017/18 largely relates to receipts from delivering parts of the Thameslink programme to agreed timescales. No amounts are reported against this category this year.

(23) Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15, after the conclusion of the control period, the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

(24) Group - Other – following changes in legislation introduced by the government with effect from April 2017, companies are charged 0.5 per cent of their pay bill to fund the government's Apprentice Levy. The costs of this extra tax was included in Group for the first time in 2017/18. As foretold in the previous year's Regulatory financial statements, in the current year these costs are included in the relevant department, rather than centrally, to improve transparency and provide greater understanding of costs. This year, the credit recognised mainly relates to amounts receivable from providing services to NRHS, in line with the regulator's expectation.

Statement 7c: Insurance reconciliation, England & Wales

In £m 2018-19 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance				Total
Risk	Underlying cost	Claims paid	Market premiums A	Underlying cost	Claims recognised by the captive B	Captive premiums	Other C	Total cost D
Property	0	0	2	8	0	5	0	2
Business interruption	0	0	2	8	0	0	0	2
Terrorism	0	0	3	0	0	0	0	3
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	2	3	0	13	0	2
Motor	0	0	1	1	0	0	0	1
Construction all risks	0	0	1	0	0	1	0	1
Other cover	0	0	1	0	0	1	0	1
Investment return	0	0	0	0	0	0	1	1
Total	**0**	**0**	**12**	**21**	**0**	**20**	**1**	**13**

Total insurance recognised in:								
Schedule 4 & 8	0	0	2	8	0	0	0	2
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	9	13	0	21	1	10
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	**0**	**0**	**11**	**21**	**0**	**21**	**1**	**12**

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2018-19	2017-18	2016-17	2015-16	2014-15	Cumulative
Operations	26	21	55	(51)	(26)	25
Investment revenues	2	1	2	2	1	8
Finance costs	0	0	0	0	0	0
Profit/(loss) before tax	28	**22**	**57**	**(49)**	**(25)**	**33**
Tax	**0**	0	0	0	0	0
Profit/(loss) attributable to shareholders	28	**22**	**57**	**(49)**	**(25)**	**33**

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

In £m 2018-19 prices unless stated

Notes:

(1) Total insurance cost: A+B+C=D

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.

(4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

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

(2) This year Network Rail Insurance Limited has made a profit (unaudited) which benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives, and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. The profit (unaudited) made by Network Rail Insurance Limited is slightly higher than last year.

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				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	263	(4)	0	259	190	0	0	190	(73)	4	0	(69)
Signalling shift managers	16	0	0	16	13	0	0	13	(3)	0	0	(3)
Local operations managers	18	(1)	0	17	15	0	0	15	(3)	1	0	(2)
Controllers	42	(1)	0	41	31	0	0	31	(11)	1	0	(10)
Electrical control room operators	16	(1)	0	15	11	0	0	11	(5)	1	0	(4)
Total signaller expenditure	**355**	**(7)**	**0**	**348**	**260**	**0**	**0**	**260**	**(95)**	**7**	**0**	**(88)**
Non-signaller expenditure												
Mobile operations managers	38	0	0	38	28	0	0	28	(10)	0	0	(10)
Managed stations	66	0	0	66	34	0	0	34	(32)	0	0	(32)
Performance	25	(12)	0	13	13	0	0	13	(12)	12	0	0
Customer relationship executives	11	0	0	11	6	0	0	6	(5)	0	0	(5)
Route enhancement managers	15	(9)	0	6	0	0	0	0	(15)	9	0	(6)
Weather	15	0	0	15	17	0	0	17	2	0	0	2
Other	43	(1)	0	42	11	0	0	11	(32)	1	0	(31)
Operations delivery	52	(43)	0	9	0	0	0	0	(52)	43	0	(9)
HQ - Operations services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Performance and planning	9	(8)	0	1	0	0	0	0	(9)	8	0	(1)
HQ - Stations and customer services	3	(1)	0	2	0	0	0	0	(3)	1	0	(2)
HQ - Other	169	(32)	0	137	25	0	0	25	(144)	32	0	(112)
Other operating income	0	0	(59)	(59)	1	0	(18)	(17)	1	0	41	42
Total non-signaller expenditure	**450**	**(106)**	**(59)**	**285**	**135**	**0**	**(18)**	**117**	**(315)**	**106**	**41**	**(168)**
Total network operations expenditure	**805**	**(113)**	**(59)**	**633**	**395**	**0**	**(18)**	**377**	**(410)**	**113**	**41**	**(256)**

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				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	18	0	(1)	17	53	0	(2)	51	35	0	(1)	34
Information management	86	(20)	(2)	64	58	0	(4)	54	(28)	20	(2)	(10)
Government and corporate affairs	9	0	0	9	17	0	0	17	8	0	0	8
Group strategy	20	(8)	(1)	11	11	0	0	11	(9)	8	1	0
Finance	21	5	(1)	25	25	0	0	25	4	(5)	1	0
Business services	33	(6)	(6)	21	14	0	(1)	13	(19)	6	5	(8)
Accommodation	67	0	0	67	67	0	0	67	0	0	0	0
Utilities	65	0	(13)	52	40	0	0	40	(25)	0	13	(12)
Insurance	17	0	0	17	42	0	0	42	25	0	0	25
Legal and inquiry	5	0	0	5	5	0	0	5	0	0	0	0
Safety and sustainable development	27	(6)	(1)	20	7	0	0	7	(20)	6	1	(13)
Strategic sourcing	13	0	0	13	21	0	(13)	8	8	0	(13)	(5)
Business change	3	0	0	3	3	0	0	3	0	0	0	0
Other corporate functions	100	(1)	(46)	53	3	0	0	3	(97)	1	46	(50)
Core support costs	**484**	**(36)**	**(71)**	**377**	**366**	**0**	**(20)**	**346**	**(118)**	**36**	**51**	**(31)**
Other support costs												
Asset management services	75	(37)	(9)	29	60	0	(20)	40	(15)	37	(11)	11
Network Rail telecoms	65	(21)	(1)	43	26	0	0	26	(39)	21	1	(17)
National delivery service	0	0	0	0	23	0	(25)	(2)	23	0	(25)	(2)
Infrastructure projects	400	(407)	(14)	(21)	0	0	0	0	(400)	407	14	21
Commercial property	67	(15)	(41)	11	28	0	(33)	(5)	(39)	15	8	(16)
Group costs	(7)	(7)	(8)	(22)	3	0	(6)	(3)	10	7	2	19
Total other support costs	**600**	**(487)**	**(73)**	**40**	**140**	**0**	**(84)**	**56**	**(460)**	**487**	**(11)**	**16**
Total support costs	**1,084**	**(523)**	**(144)**	**417**	**506**	**0**	**(104)**	**402**	**(578)**	**523**	**40**	**(15)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	1,296	(7)	0	1,289	1,083	0	0	1,083	(213)	7	0	(206)
Signalling shift managers	84	(1)	0	83	68	0	0	68	(16)	1	0	(15)
Local operations managers	100	(4)	0	96	77	0	0	77	(23)	4	0	(19)
Controllers	195	(7)	0	188	158	0	0	158	(37)	7	0	(30)
Electrical control room operators	72	(5)	0	67	54	0	0	54	(18)	5	0	(13)
Total signaller expenditure	**1,747**	**(24)**	**0**	**1,723**	1,440	**0**	**0**	**1,440**	**(307)**	**24**	**0**	**(283)**
Non-signaller expenditure												
Mobile operations managers	190	(6)	0	184	153	0	0	153	(37)	6	0	(31)
Managed stations	289	3	0	292	185	0	0	185	(104)	(3)	0	(107)
Performance	92	(22)	0	70	69	0	0	69	(23)	22	0	(1)
Customer relationship executives	41	(4)	0	37	33	0	0	33	(8)	4	0	(4)
Route enhancement managers	55	(44)	0	11	0	0	0	0	(55)	44	0	(11)
Weather	79	(8)	0	71	93	0	0	93	14	8	0	22
Other	285	(98)	0	187	59	0	0	59	(226)	98	0	(128)
Operations delivery	197	(168)	0	29	0	0	0	0	(197)	168	0	(29)
HQ - Operations services	9	0	0	9	0	0	0	0	(9)	0	0	(9)
HQ - Performance and planning	72	(49)	0	23	0	0	0	0	(72)	49	0	(23)
HQ - Stations and customer services	7	(1)	0	6	0	0	0	0	(7)	1	0	(6)
HQ - Other	421	(80)	0	341	138	0	0	138	(283)	80	0	(203)
Other operating income	1	0	(208)	(207)	0	0	(99)	(99)	(1)	0	109	108
Total non-signaller expenditure	**1,738**	**(477)**	**(208)**	**1,053**	**730**	**0**	**(99)**	**631**	**(1,008)**	**477**	**109**	**(422)**
Total network operations expenditure	**3,485**	**(501)**	**(208)**	**2,776**	**2,170**	**0**	**(99)**	**2,071**	**(1,315)**	**501**	**109**	**(705)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	145	(9)	(8)	128	296	0	(11)	285	151	9	(3)	157
Information management	436	(113)	(15)	308	316	0	(21)	295	(120)	113	(6)	(13)
Government and corporate affairs	63	(8)	0	55	90	0	0	90	27	8	0	35
Group strategy	87	(45)	(5)	37	55	0	0	55	(32)	45	5	18
Finance	96	13	(2)	107	135	0	0	135	39	(13)	2	28
Business services	126	(17)	(20)	89	71	0	(3)	68	(55)	17	17	(21)
Accommodation	374	(3)	0	371	356	0	0	356	(18)	3	0	(15)
Utilities	298	(2)	(67)	229	209	0	0	209	(89)	2	67	(20)
Insurance	149	0	0	149	231	0	0	231	82	0	0	82
Legal and inquiry	32	(1)	0	31	30	0	0	30	(2)	1	0	(1)
Safety and sustainable development	144	(34)	(7)	103	41	0	0	41	(103)	34	7	(62)
Strategic sourcing	39	0	0	39	111	0	(65)	46	72	0	(65)	7
Business change	12	0	0	12	16	0	0	16	4	0	0	4
Other corporate functions	639	(211)	(237)	191	16	0	0	16	(623)	211	237	(175)
Core support costs	**2,640**	**(430)**	**(361)**	**1,849**	**1,973**	**0**	**(100)**	**1,873**	**(667)**	**430**	**261**	**24**
Other support costs												
Asset management services	361	(169)	(34)	158	303	0	(99)	204	(58)	169	(65)	46
Network Rail telecoms	324	(101)	(29)	194	173	0	0	173	(151)	101	29	(21)
National delivery service	(5)	1	4	0	131	0	(124)	7	136	(1)	(128)	7
Infrastructure projects	2,052	(2,127)	(40)	(115)	0	0	0	0	(2,052)	2,127	40	115
Commercial property	268	(78)	(193)	(3)	138	0	(159)	(21)	(130)	78	34	(18)
Group costs	(32)	(21)	(134)	(187)	4	0	(30)	(26)	36	21	104	161
Total other support costs	**2,968**	**(2,495)**	**(426)**	**47**	**749**	**0**	**(412)**	**337**	**(2,219)**	**2,495**	**14**	**290**
Total support costs	**5,608**	**(2,925)**	**(787)**	**1,896**	**2,722**	**0**	**(512)**	**2,210**	**(2,886)**	**2,925**	**275**	**314**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(3) Network operations costs in 2018/19 are approximately 40 per cent higher than the regulator assumed. About one-fifth of this is due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as responsibility for stations (Reading, Bristol, Guildford and Clapham Junction) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been substantially redeveloped necessitating extra running costs. In both of these situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination. Whilst core Signaller costs are consistent year-on-year, extra Managed stations have arisen from the transfer of Guildford and Clapham Junction stations into the Network Rail managed stations portfolio this year. Also, Higher HQ – Other costs largely reflect expenses relating to commercial claims recognised this year as the control period draws to a close and additional costs incurred which have been offset by higher Other operating income this year.

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

In £m 2018-19 prices unless stated

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. This year, for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved, Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are higher than the previous year due to increased scope of activity ahead of the challenges set out in the regulator's control period 6 determination and some one-off claims. These extra costs have been partly mitigated by favourable movements on Insurance costs owing to the latest actuarial assessment of historical liabilities.

(5) Information management – costs are higher than the determination assumed this year mainly due to a larger IT estate as more programmes and systems are supported than the determination originally assumed. In addition, some extra investment has been undertaken this year to help generate efficiencies across the organisation next control period. The higher costs this year explain most of the variance to the regulatory target across the control period. Costs are higher than the previous year due to increased licence costs owing to growing complexity of IT systems and higher headcount and acceleration of initiatives to drive efficiencies in control period

(6) Human Resources - costs are markedly lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year.

(7) Government and corporate affairs costs are notably lower than the determination in the year and control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Costs this year are in line with the previous year.

(8) Group strategy – this year, expenditure is consistent with the determination expectation. Costs have been lower than the ORR anticipated this control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

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

In £m 2018-19 prices unless stated

(9) Finance – costs were lower than the determination. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs between 2015/16 and 2017/18, part of the Group strategy team and Business Services in 2016/17.

(10) Business services – costs in this category are higher than the determination assumption this year. The higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption across the control period. Costs in the year are higher than the previous year due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(11) Accommodation these property expenses were consistent with the determination this year. For the control period costs were higher than the regulatory target. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 17 per cent lower than the CP4 exit position by the end of control period 5, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the ambitious regulatory target. Costs are lower than the previous year with lower rents and service charges being negotiated for corporate offices.

(12) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.

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

In £m 2018-19 prices unless stated

(13)Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(14)Legal and inquiry – costs for the current year are consistent with the determination expectation. However, this is a net position arising from both increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. This extra expense has been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Costs in the control period are slightly higher than the regulator assumed. This is a combination of the above factor as well as the incorporation of Business Change activities into this department for some of the earlier years of the control period. Expenses in the current year are consistent with the previous year.

(15) Safety and sustainable development - costs are much higher than the determination in the year and the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. Costs are largely in line with the previous year.

(16) Strategic sourcing – costs are higher than the determination assumption for the year. This includes some commercial and litigation claims included in this year. Across the control period savings have been made which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category. Costs in the current year are higher than the previous year due to the aforementioned commercial and litigation claims.

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

In £m 2018-19 prices unless stated

(17) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6. Costs reported for Business change this year are in line with the previous year.

(18) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

(19) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(20) Network Rail telecoms – costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year. This also explains the reduction reported in Other operating income this year compared to 2017/18.

(21) National Delivery Services – costs are in line with the previous year but slightly adverse to the regulatory assumption. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement. Support costs are in line with the previous year.

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

In £m 2018-19 prices unless stated

(22) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year. There has been a noticeably increase in Other operating income this year which is due to undertaking additional work on third party assets. There is a corresponding increase in the gross costs of the department to deliver these works.

(23) Commercial Property – net costs is the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. These extra costs have negated savings achieved from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath). Net costs in the current year are higher than the previous year including the aforementioned transfer of Railway Heritage Trust activity this year.

(24) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	564	378	(186)	2,682	2,038	(644)	544
Signalling	209	145	(64)	987	764	(223)	202
Civils	161	123	(38)	774	652	(122)	165
Buildings	65	51	(14)	271	261	(10)	67
Electrical power and fixed plant	107	95	(12)	487	493	6	104
Telecoms	27	17	(10)	122	97	(25)	26
Other network operations	185	139	(46)	887	760	(127)	159
Asset management services	64	32	(32)	271	169	(102)	52
National Delivery Service	(3)	41	44	(34)	217	251	(8)
Property	6	6	-	43	27	(16)	6
Group	(20)	(17)	3	(103)	(88)	15	(21)
Total maintenance expenditure	**1,365**	**1,010**	**(355)**	**6,387**	**5,390**	**(997)**	**1,296**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works, and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some slight increases reflecting extra works undertaken to improve asset performance. The impact of the prolonged hot weather in summer 2018 had an adverse impact on asset condition that required rectification.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, which accounts for the net difference to the regulatory expectation for the control period as a whole. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. The level of resources anticipated, and potential efficiencies assume d in the regulator's control period 5 determination now appear over optimistic. Costs in the control period are only slightly higher than the regulatory assumption. This is partly due to delays in significant electrification enhancements being delivered which reduced the need for maintenance teams as well as through a number of local efficiencies, including restricting overtime and undertaking more risk-based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category. Costs have increased compared to 2017/18 as this year additional investment has been undertaken to improve resilience of Electrification equipment to maintain train performance levels. The impact of the prolonged hot weather in summer 2018 had an adverse impact on asset condition that required rectification.

(7) Telecoms – costs are higher that the regulatory assumption this year and in the control period. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.

(8) Other network operations – costs for the current year are higher than the regulator's expectation continuing the trend of the earlier years of the control period. This is largely due to additional investment in performance improvement plans and safety enhancement schemes as well as a transfer of activity from some of the other headings in this statement reflecting changes in responsibilities between different parts of the organisation. Costs for the control period as a whole have also been impacted from one-off costs from consolidation in Wessex Delivery Units and for activity transferring from other headings within this statement. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. A total of £39m was spent in 2014/15 and £7m in 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result of activity transferring additional investment in vegetation clearance, performance improvement initiatives and investment in front-line staff welfare facilities, notably in London North Western.

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

In £m 2018-19 prices unless stated

(9) Asset management services – as with earlier years of the control period, costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant, additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. Costs are higher than the previous year. As noted in last year's Regulatory financial statements, costs in 2017/18 benefitted from a favourable settlement of a commercial claim. Without that non-recurring benefit this year, costs have reverted to a similar level to those in 2016/17.

(10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral.

(11) Property – expenses in the current year are in line with the determination but are higher for the control period. This is mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenants' bankruptcy earlier in the control period which left Network Rail to bear the costs of site clearance. Costs are similar to the previous year.

(12) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Track	7,341	7,394	7,712	7,647	7,726
Signalling	2,927	2,913	3,422	3,423	3,472
Civils	261	247	244	246	257
Buildings	155	169	208	204	278
Electrical power and fixed plant	1,381	1,375	1,592	1,819	1,801
Telecoms	432	468	461	462	478
Other network operations	1,492	1,614	1,883	1,804	1,768
Asset management services	-	-	-	-	-
National delivery service	669	973	1,007	1,009	1,020
Property	-	-	-	-	-
Group	-	-	-	-	-
Other maintenance	-	-	-	-	-
Total network maintenance headcount	**14,658**	**15,153**	**16,529**	**16,614**	**16,800**

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

Notes:

(1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.

(2) This statement refers to the average heading during the year.

(3) This statement records the full-time equivalent staff rather than the total number of employees.

(4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. Whilst there have been increases across most of the asset categories as activity ramps up ahead of meeting the regulator's challenges for the recently-published control period 6 determination, the most noticeable is in Buildings.

(2) Electrical power and fixed plant headcount has increased over the course of the control period. This is in response to increased levels of electrified assets on the network following major enhancement programmes, notably in Western and Wales.

(3) Buildings – as noted above, the most noticeable increase this year is in Buildings where the team in London North Western route was significantly expanded to reduce dependency on external resource, providing more direct control and flexibility in resource deployment.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Ashford	26	24	25	25	25	125
Bedford	20	19	19	19	18	95
Bletchley	31	31	32	33	33	160
Bristol	21	20	22	22	21	106
Brighton	27	28	26	26	27	134
Carlisle	26	26	27	29	31	139
Clapham	28	27	29	41	44	169
Cardiff	33	33	33	36	37	172
Croydon	26	27	28	26	27	134
Derby	24	24	27	27	25	127
Doncaster	20	19	20	20	20	99
Eastleigh	24	22	23	37	39	145
Hitchin	25	26	27	26	25	129
Ipswich	29	28	28	29	30	144
Leeds	18	20	20	20	19	97
Liverpool	24	26	27	27	24	128
London Bridge	25	26	26	27	26	130
London Euston	30	27	27	26	28	138
Manchester	32	31	32	34	34	163
Newcastle	23	27	28	26	26	130
Orpington	21	22	22	22	21	108
Plymouth	15	15	16	17	18	81
Preston	16	15	17	17	16	81
Reading	16	19	21	24	25	105
Romford	36	33	35	35	36	175
Saltley	26	28	30	31	32	147
Sandwell & Dudley	21	23	25	26	27	122
Sheffield	15	15	20	17	18	85
Shrewsbury	15	17	18	19	19	88
Stafford	22	23	23	26	27	121
Swindon	15	18	22	19	21	95
Tottenham	35	33	34	34	35	171
Warrington	22	20	21	21	23	107
Woking	31	27	26	0	0	84
York	21	23	25	25	22	116
Centrally managed						
Structures examinations	64	79	96	100	95	434
Major items of maintenance plant	6	5	4	9	10	34
HQ managed activities	67	33	27	27	30	184
Other	219	282	279	271	331	1,382
Total network maintenance	**1,195**	**1,241**	**1,287**	**1,296**	**1,365**	**6,384**

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

In £m 2018-19 prices unless stated

Notes:

(1) These costs only include direct costs

(2) No PR13 comparison has been provided by the ORR for this schedule

(3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

(1) Overall maintenance costs are higher than the previous year. This is mainly a result of Network Rail increasing its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6.

(2) Total depots costs this year are in line with 2017/18.

(3) Notable changes earlier in the control period are set out below:

   a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the costs for Woking depot in 2017/18 compared to earlier years of the control period following the closure of the depot in 2016/17. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The savings made from the Woking depot closure is mostly offset by increased costs in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

   b. Reading - this depot has higher costs in 2017/18 compared to earlier years of the control period. This is due to new electrification teams recruited to manage the new electrified assets in the Western route.

   c. Cardiff – costs in this depot have increased in 2017/18 which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.

(4) HQ managed activities – costs are higher than the previous year.

(5) Other – costs are noticeably higher than the prior year. As shown in last year's Regulatory financial statements, costs in this category were lower in 2017/18 compared to previous years. This was partly due to a non-recurring benefit last year following successful mitigation of a commercial claim. The extra costs in the year are due to the Railway Heritage Trust activities and additional asset inspections. Elsewhere on the network there has also been performance improvement schemes and vegetation management investment to prepare the network for the challenges set out by the recently-published regulator's control period 6 determination.

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

	2014-15			2015-16			2016-17			2017-18			2018-19		
		Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306	311	-	311	372	-	372
Bedford	300	-	300	301	-	301	284	-	284	293	-	293	302	-	302
Bletchley	364	1	365	390	1	391	365	-	365	365	-	365	368	-	368
Bristol	366	1	367	378	1	379	326	-	326	357	-	357	362	1	363
Brighton	358	1	359	329	-	329	324	-	324	330	-	330	333	-	333
Carlisle	373	-	373	378	-	378	374	-	374	375	-	375	382	-	382
Clapham	300	-	300	317	-	317	335	1	336	498	1	499	493	-	493
Cardiff	416	1	417	423	1	424	444	1	445	477	1	478	510	-	510
Croydon	295	-	295	275	2	277	287	-	287	287	-	287	298	-	298
Derby	460	1	461	495	-	495	400	-	400	528	-	528	526	-	526
Doncaster	292	-	292	291	-	291	294	-	294	303	-	303	296	1	297
Eastleigh	298	2	300	315	1	316	341	-	341	492	6	498	516	6	522
Hitchin	342	1	343	358	1	359	363	-	363	363	-	363	388	-	388
Ipswich	405	-	405	420	-	420	424	-	424	428	-	428	447	-	447
Leeds	309	2	311	309	1	310	305	-	305	305	-	305	313	-	313
Liverpool	346	-	346	353	-	353	348	1	349	338	2	340	333	1	334
London Bridge	294	1	295	285	-	285	290	1	291	302	-	302	308	-	308
London Euston	322	-	322	315	-	315	292	-	292	325	-	325	330	-	330
Manchester	447	3	450	447	1	448	455	-	455	460	-	460	464	1	465
Newcastle	383	-	383	382	-	382	380	-	380	376	-	376	383	-	383
Orpington	260	-	260	247	-	247	248	-	248	248	-	248	243	-	243
Plymouth	314	1	315	333	-	333	273	-	273	279	1	280	294	1	295
Preston	271	2	273	273	-	273	278	-	278	270	-	270	270	-	270
Reading	331	5	336	350	6	356	328	4	332	360	4	364	406	2	408
Romford	426	4	430	448	2	450	453	1	454	468	1	469	477	-	477
Saltley	328	-	328	348	-	348	348	-	348	356	-	356	359	-	359
Sandwell & Dudley	304	3	307	312	4	316	322	1	323	324	1	325	320	-	320
Sheffield	317	1	318	312	-	312	300	1	301	302	1	303	309	-	309
Shrewsbury	259	-	259	270	-	270	291	-	291	305	-	305	314	-	314
Stafford	325	2	327	322	1	323	326	1	327	322	1	323	319	-	319
Swindon	256	2	258	306	1	307	298	-	298	335	-	335	365	-	365
Tottenham	428	1	429	452	1	453	459	3	462	471	1	472	475	1	476
Warrington	343	-	343	341	-	341	343	-	343	339	1	340	337	1	338
Woking	380	2	382	390	6	396	359	-	359	-	-	-	-	-	-
York	372	2	374	381	2	383	385	1	386	361	1	362	367	-	367
Centrally managed															
Route HQ	1,906	140	2,046	1,857	139	1,996	3,410	149	3,559	3,223	108	3,331	3,081	106	3,187
Other HQ	561	107	668	863	110	973	929	77	1,006	942	66	1,008	973	47	1,020
Total network maintenance	**14,371**	**287**	**14,658**	**14,870**	**282**	**15,152**	**16,287**	**243**	**16,529**	**16,418**	**196**	**16,614**	**16,633**	**168**	**16,801**

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

Notes:

(1) This statement refers to the average heading during the year.

(2) This statement records the full-time equivalent staff rather than the total number of employees.

(3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required. In addition, extra staff have been recruited as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake.

(2) Total depots headcount has increased since the previous year. This is mostly due to increases in electrification resources as more of the network becomes electrified and so requires additional resource to operate optimally. This is also shown in Statement 8b which shows the increase in this category. In addition, extra staff have been recruited as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake. The increase is compounded by a general trend of more responsibilities moving to depots to allow more responsive teams and better management of local issues. This is also shown by the corresponding decrease in Route HQ staff. Notably movements in depot headcount this year include:

   a. Ashford – headcount has increased mainly due to the transfer of Telecoms maintenance teams from Route HQ to this depot. This can be seen in the reduction of Route HQ headcount compared to the previous year.

   b. Reading/ Swindon - these depots on the Western route all have higher headcount than in 2017/18. This is due to continued recruitment programmes to manage the new electrified assets in this route.

   c. Cardiff – headcount in this depot has increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme and additional apprentice recruitment.

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

(3) In addition, to the above, other notable depot headcount movements earlier on the control period include:

a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the headcount for Woking depot in 2017/18 following the closure of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The reduction in headcount arising from the Woking depot closure is mostly offset by increased headcount in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8c, which shows the maintenance cost movements between these depots as staff transfer.

b. Derby – in 2017/18 parts of the organisational structure have been reclassified as Other HQ, including the operations around the Lincoln and Sleaford area, which accounts for the increase in headcount compared to the earlier years of the control period.

(4) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is more than offset by increases in the headcount within depots.

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

In £m 2018-19 prices unless stated

	Actual	2018-19 PR13	Difference	cumulative	Cumulative PR13	Difference	2017-18 Actual
Track	786	603	(183)	4,136	3,355	(781)	652
Signalling	646	506	(140)	3,143	3,332	189	605
Civils	330	370	40	2,268	2,047	(221)	335
Buildings	224	130	(94)	841	793	(48)	76
Electrical power and fixed plant	241	132	(109)	869	981	112	151
Telecoms	65	45	(20)	301	364	63	47
Wheeled plant and machinery	100	56	(44)	386	556	170	57
Information Technology	103	74	(29)	546	406	(140)	69
Property	16	21	5	83	126	43	15
Other renewals	197	339	142	852	516	(336)	120
Total renewals expenditure	**2,708**	**2,276**	**(432)**	**13,425**	**12,476**	**(949)**	**2,127**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected reflecting the trend of the control period overall. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £0.9bn higher than the determination which includes £0.4bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), £4.5bn of financial underperformance and £4.0n of net deferral of activity. Investment is higher than the previous year with increases across most asset categories as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

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

In £m 2018-19 prices unless stated

(2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are lower than the regulatory assumption across most categories. Whilst Plain Line is slightly ahead, High Output volumes are only around half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. Switches & Crossings activity has been over 20 per cent less than planned for the control period mainly due to higher like-for-like costs necessitating deferral of activity to remain within the funding constraints of the control period. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings but also in High Output where productivity improvements helped reduce average unit costs. This year also saw increases in drainage and fencing works as well as recognition of costs of implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like-for-like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals. Some notable examples include deferral of ECTS work between Reading and Paddington, Newport to Shrewsbury upgrades and Colchester area replacements. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are slightly higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on schemes at Angerstein, Hither Green and in Anglia accounted for an increase of over £50m, but these were offset by a reduction of over £60m arising from works at Birmingham New Street phase 6 and Bristol. This year there was also additional ETMS costs and Minor works intervention costs.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was lower than the regulator anticipated mitigating some of the additional investment undertaken in the earlier years of the control period. This year higher underlying costs have been more than offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. There are variances in expenditure between the various categories of activity. This is to be expected as the regulator's assumption for control period 6 were based largely on a hypothetical assessment of the required workbank using asset condition and data models. In reality, the actual composition of activity was likely to be different based on updated asset management and performance data. The most notable category of underspend in in Structures other where the assumed costs per the determination are largely included within the appropriate heading (thus increasing costs in these categories) to provide greater clarity of the underlying costs of the organisation. There has also been an underspend in Underbridges, but this is proportionately smaller, at around 5 per cent of the regulatory expectation. There has been additional expenditure in Other assets, which includes emergency works required following severe damage caused to Dover sea wall. Spend is in line with the previous year, with lower Overbridges investment being offset by higher Earthworks costs.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of activity deferred from earlier years of the control period. Investment in the control period is higher than the regulator expected. However, this is due to higher like-for-like expenditure more than offsetting deferrals. The higher like-for-like costs during the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Across the Buildings portfolio some categories have spent less than the determination. This is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street and Birmingham New Street as funding has investment at Franchised Stations has been prioritised. Expenditure has also been lower for Depot plant due to funding being redirected. Instead, alternative solutions such as increased maintenance, have been enacted to maintain plant capabilities. As noted above, there has been additional investment in Franchised stations this control period which includes a major investment programme across Kent and Sussex in 2018/19, incorporating car park, customer toilet and suicide prevention improvements. Investment in MDUs has been higher than the regulator expected this control period, but this has been partly offset by lower MDU costs included within the Property heading. Expenditure is higher than the previous year mainly due to the aforementioned Franchised stations programme in Kent and Sussex routes undertaken this year).

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year offsetting some of the underspends from earlier in the control period. Whilst expenditure across the control period has been 10 per cent less than the regulator assumed, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower expenditure in the control period is due to delays across most of the portfolio The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend meaning that the programme is now planned to continue into control period 6. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. DC distribution has been notably lower than the regulator's assumption which is concentrated in Kent due to a reprofiling of the whole investment strategy in that route. These cost reductions were partly offset by additional investment in London North East route where extra spend was undertaken to improve resilience on the East Coast Main Line).

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in this area had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed. There has been some minor telecoms financial underperformance this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year as predicted in last year's Regulatory Financial Statements with the most notable increase in SISS to offset some of the underspend earlier in the control period. As well as the aforementioned SISS projects other notable investment this year included cyclical licence renewals, GSM-R works, installation of CCTV to facilitate driver only operated rolling stock and cab radio interference resistance.

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

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(8) Wheeled plant and machinery – expenditure in the year was higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles where expenditure was around £100m less than the determination across CP5. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption in the current year. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. Costs are in line with the previous year.

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

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(11) Other renewals includes the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. As planned, investment was higher this year compared to 2017/18 as more projects with sound businesses cases were identified and delivered. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, expenditure this year was higher than the regulator assumed, partially offsetting the lower spend levels in earlier years of the control period. Overall, expenditure in the control period was lower than the regulator planned due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Most of the investment this year was in Wessex and Sussex routes where large safety improvement programmes were implemented.

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

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d. Small plant – expenditure is the year was higher than the regulator’s determination as some of the underspend from earlier years of the control period was caught up. Costs in the control period were lower than the regulatory assumption which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. These savings largely arose from prioritising investment of the available funds on front line activity. As Statement 5 demonstrates, the like-for-like costs for renewals were higher the regulator assumed, meaning that additional funding had to be sought from elsewhere in the company’s plans. Also, this fund is used to procure many small, bespoke pieces of equipment so items are only purchased if there is a suitable option available, supported by a robust business case. As part of Network Rail’s policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway which has helped increase the expenditure this year compared to the previous year. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

e. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

f. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. However, the ORR baselines suggested a net £4m deferral in the control period. No actual expenditure has been reported against this category.

g. Engineering innovation fund – in line with the regulator’s determination no expenditure was incurred in the current year or in the control period.

h. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Almost all of the expenditure in the current year is on electrification programmes. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as more of the schemes that were rolled over from CP4 are completed.

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

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i. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network in the South East. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. In addition, the current year includes investment to improve the resilience of the Thameslink line following commitments made by DfT and Network Rail to improve performance on this part of the network in light of the devasting impact that industrial action had on passengers earlier in the control period. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink resilience programme..

j. West Coast – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	248	205	(43)	1,383	1,110	(273)
High output renewal	99	113	14	822	591	(231)
Plain line refurbishment	55	25	(30)	268	124	(144)
S&C renewal	176	123	(53)	845	762	(83)
S&C refurbishment	47	44	(3)	215	216	1
Track non-volume	26	36	10	153	242	89
Off track	135	57	(78)	450	310	(140)
Total track	**786**	**603**	**(183)**	**4,136**	**3,355**	**(781)**
Signalling						
Full conventional resignalling	254	55	(199)	1,365	794	(571)
Modular resignalling	2	17	15	70	146	76
ERTMS resignalling	15	125	110	64	306	242
Partial conventional resignalling	91	101	10	460	744	284
Targeted component renewal	11	21	10	32	114	82
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	45	11	(34)	124	57	(67)
Operating strategy other capital expenditure	25	-	(25)	208	159	(49)
Level crossings	64	78	14	255	469	214
Minor works	121	64	(57)	494	364	(130)
Centrally managed costs	18	34	16	71	179	108
Other	-	-	-	-	-	-
Total signalling	**646**	**506**	**(140)**	**3,143**	**3,332**	**189**
Civils						
Underbridges	122	169	47	837	919	82
Overbridges	37	27	(10)	265	153	(112)
Bridgeguard 3	4	-	(4)	25	-	(25)
Major structures	10	9	(1)	84	50	(34)
Tunnels	19	28	9	111	145	34
Other assets	35	32	(3)	252	188	(64)
Structures other	13	26	13	58	145	87
Earthworks	90	79	(11)	635	447	(188)
Other	-	-	-	1	-	(1)
Total civils	**330**	**370**	**40**	**2,268**	**2,047**	**(221)**
Buildings						
Managed stations	43	23	(20)	118	172	54
Franchised stations	131	87	(44)	523	485	(38)
Light maint depots	8	6	(2)	64	38	(26)
Depot plant	2	3	1	12	39	27
Lineside buildings	13	5	(8)	55	22	(33)
MDU buildings	27	5	(22)	64	30	(34)
NDS depots	-	1	1	3	7	4
Other	-	-	-	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	**224**	**130**	**(94)**	**841**	**793**	**(48)**

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Electrical power and fixed plant						
AC distribution	16	2	(14)	24	38	14
Overhead Line	71	27	(44)	248	197	(51)
DC distribution	19	29	10	143	209	66
Conductor rail	6	8	2	46	60	14
SCADA	18	6	(12)	43	56	13
Energy efficiency	-	1	1	4	10	6
System capability / capacity	3	3	-	21	34	13
Other electrical power	41	17	(24)	79	80	1
Fixed plant	67	39	(28)	261	297	36
Total electrical power and plant	**241**	**132**	**(109)**	**869**	**981**	**112**
Telecoms						
Operational communications	11	13	2	34	51	17
Network	5	11	6	28	72	44
SISS	19	14	(5)	50	120	70
Projects and other	3	4	1	14	58	44
Non-route capital expenditure	27	3	(24)	175	63	(112)
Total telecoms	**65**	**45**	**(20)**	**301**	**364**	**63**
Wheeled plant and machinery						
High output	16	4	(12)	109	121	12
Incident response	-	-	-	-	7	7
Infrastructure monitoring	3	4	1	16	23	7
Intervention	9	5	(4)	74	125	51
Materials delivery	4	1	(3)	48	12	(36)
On track plant	59	15	(44)	93	84	(9)
Seasonal	1	2	1	5	43	38
Locomotives	1	2	1	1	2	1
Fleet support plant	6	5	(1)	6	27	21
Road vehicles	1	15	14	17	109	92
S&C delivery	-	3	3	17	3	(14)
Total wheeled plant and machinery	**100**	**56**	**(44)**	**386**	**556**	**170**
Information Technology						
IM delivered renewals	100	65	(35)	509	361	(148)
Traffic management	3	9	6	37	45	8
Total information technology	**103**	**74**	**(29)**	**546**	**406**	**(140)**
Property						
MDUs/offices	11	15	4	54	92	38
Commercial estate	5	6	1	29	34	5
Corporate services	-	-	-	-	-	-
Total property	**16**	**21**	**5**	**83**	**126**	**43**
Other renewals						
Asset information strategy	20	7	(13)	165	180	15
Intelligent infrastructure	33	22	(11)	67	96	29
Faster isolations	82	34	(48)	162	180	18
LOWS	6	2	(4)	12	11	(1)
Small plant	17	11	(6)	30	53	23
Research and development	10	-	(10)	16	-	(16)
Phasing overlay	-	263	263	-	(4)	(4)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	7	-	(7)	350	-	(350)
Other	22	-	(22)	50	-	(50)
West Coast	-	-	-	-	-	-
Total other renewals	**197**	**339**	**142**	**852**	**516**	**(336)**
Total renewals	**2,708**	**2,276**	**(432)**	**13,425**	**12,476**	**(949)**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected reflecting the trend of the control period overall. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £0.9bn higher than the determination which includes £0.4bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), £4.5bn of financial underperformance and £4.0n of net deferral of activity. Investment is higher than the previous year with increases across most asset categories as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

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

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(2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are expected to be lower than the regulatory assumption across most. Whilst Plain Line is slightly ahead, High Output volumes are only around half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. Switches & Crossings activity has been over 20 per cent less than planned for the control period mainly due to higher like-for-like costs necessitating deferral of activity to remain within the funding constraints of the control period. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings but also in High Output where productivity improvements helped reduce average unit costs. This year also saw increases in drainage and fencing works as well as recognition of costs of implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals. Some notable examples include deferral of ECTS work between Reading and Paddington, Newport to Shrewsbury upgrades and Colchester area replacements. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are slightly higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on schemes at Angerstein, Hither Green and in Anglia accounted for an increase of over £50m, but these were offset by a reduction of over £60m arising from works at Birmingham New Street phase 6, Polmadie & Rutherglen and Bristol. This year there was also additional ETMS costs and Minor works intervention costs.

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

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(4) Civils – expenditure in the year was lower than the regulator anticipated mitigating some of the additional investment undertaken in the earlier years of the control period. This year higher underlying costs have been more than offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. There are variances in expenditure between the various categories of activity. This is to be expected as the regulator's assumption for control period 6 were based largely on a hypothetical assessment of the required workbank using asset condition and data models. In reality, the actual composition of activity was likely to be different based on updated asset management and performance data. The most notable category of underspend in in Structures other where the assumed costs per the determination are largely included within the appropriate heading (thus increasing costs in these categories) to provide greater clarity of the underlying costs of the organisation. There has also been an underspend in Underbridges, but this is proportionately smaller, at around 5 per cent of the regulatory expectation. There has been additional expenditure in Other assets, which includes emergency works required following severe damage caused to Dover sea wall. Spend is in line with the previous year, with lower Overbridges investment being offset by higher Earthworks costs.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of activity deferred from earlier years of the control period. Investment in the control period is higher than the regulator expected. However, this is due to higher like-for-like expenditure more than offsetting deferrals. The higher like-for-like costs during the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Across the Buildings portfolio some categories have spent less than the determination. This is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street and Birmingham New Street as funding has investment at Franchised Stations has been prioritised. Expenditure has also been lower for Depot plant due to funding being redirected. Instead, alternative solutions such as increased maintenance, have been enacted to maintain plant capabilities. As noted above, there has been additional investment in Franchised stations this control period which includes a major investment programme across Kent and Sussex in 2018/19, incorporating car park, customer toilet and suicide prevention improvements. Investment in MDUs has been higher than the regulator expected this control period, but this has been partly offset by lower MDU costs included within the Property heading. Expenditure is higher than the previous year mainly due to the aforementioned Franchised stations programme in Kent and Sussex routes undertaken this year.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year offsetting some of the underspends from earlier in the control period. Whilst expenditure across the control period has been 10 per cent less than the regulator assumed, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower expenditure in the control period is due to delays across most of the portfolio The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend meaning that the programme is now planned to continue into control period 6. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. DC distribution has been notably lower than the regulator's assumption which is concentrated in Kent due to a reprofiling of the whole investment strategy in that route. These cost reductions were partly offset by additional investment in London North East route where extra spend was undertaken to improve resilience on the East Coast Main Line.

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in this area had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed. There has been some minor telecoms financial underperformance this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year as predicted in last year's Regulatory Financial Statements with the most notable increase in SISS to offset some of the underspend earlier in the control period. As well as the aforementioned SISS projects other notable investment this year included cyclical licence renewals, GSM-R works, installation of CCTV to facilitate driver only operated rolling stock and cab radio interference resistance.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure in the year was higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles where expenditure was around £100m less than the determination across CP5. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption in the current year. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. Costs are in line with the previous year.

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

In £m 2018-19 prices unless stated

(11)Other renewals

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. As planned, investment was higher this year compared to 2017/18 as more projects with sound businesses cases were identified and delivered. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, expenditure this year was higher than the regulator assumed, partially offsetting the lower spend levels in earlier years of the control period. Overall, expenditure in the control period was lower than the regulator planned due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Most of the investment this year was in Wessex and Sussex routes where large safety improvement programmes were implemented.

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

In £m 2018-19 prices unless stated

d. Small plant – expenditure is the year was higher than the regulator's determination as some of the underspend from earlier years of the control period was caught up. Costs in the control period were lower than the regulatory assumption which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. These savings largely arose from prioritising investment of the available funds on front line activity. As Statement 5 demonstrates, the like-for-like costs for renewals were higher the regulator assumed, meaning that additional funding had to be sought from elsewhere in the company's plans. Also, this fund is used to procure many small, bespoke pieces of equipment so items are only purchased if there is a suitable option available, supported by a robust business case. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway which has helped increase the expenditure this year compared to the previous year. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

k. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. However, the ORR baselines suggested a net £4m deferral in the control period. No actual expenditure has been reported against this category.

f. Engineering innovation fund – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

g. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Almost all of the expenditure in the current year is on electrification programmes. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as more of the schemes that were rolled over from CP4 are completed.

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

In £m 2018-19 prices unless stated

h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network in the South East. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. In addition, the current year includes investment to improve the resilience of the Thameslink line following commitments made by DfT and Network Rail to improve performance on this part of the network in light of the devasting impact that industrial action had on passengers earlier in the control period. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink resilience programme.

i. West Coast – in line with the regulator's determination no expenditure was incurred in the current year or in the control period.

Statement 10: Other information, England & Wales

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	318	206	(112)	1,180	1,067	(113)	212
Access charge supplement Income	(192)	(194)	(2)	(1,004)	(1,005)	(1)	(191)
Net (income)/cost	**126**	**12**	**(114)**	**176**	**62**	**(114)**	**21**
Schedule 8							
Performance element income	(14)	-	14	(76)	-	76	(12)
Performance element costs	303	5	(298)	1,003	21	(982)	216
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**289**	**5**	**(284)**	**927**	**21**	**(906)**	**204**

B) Opex memorandum account

	2018-19	Cumulative	2017-18
Volume incentive	(160)	(175)	(29)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	18	48	26
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(2)	(5)	(1)
Reporters fees	(2)	(9)	(2)
Other industry costs	2	9	2
Network Rail HS1	5	17	4
Difference in CP4 opex memo	-	(8)	-
allowance	-	-	-
Total logged up items	**(139)**	**(123)**	**-**

D) Net income / (costs) from alliances:

	2018-19	Cumulative	2017-18
Payment from South West Trains	-	2	-
Total alliance income	-	**2**	**-**
Payment to South West Trains	-	(2)	-
Total alliance costs	**-**	**(2)**	**-**
Net alliance income / (cost)	**-**	**-**	**-**

Statement 10: Other information, England & Wales – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

(7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Statement 10: Other information, England & Wales – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. Across the control period the difference to the determination is minimal. This year, the performance element costs are greater than the regulator expected as higher like-for-like costs have been partially offset by deferral of activities requiring possessions. As shown in Statement 5a, the like-for-like costs of schedule 4 possessions have been higher than the regulator assumed in the control period 5 determination. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the 2018/19 result being the main reason. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track – Switches & Crossings and Signalling - Full and partial conventional re-signalling) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs.

Statement 10: Other information, England & Wales – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including additional security staff on the London North West route at known hotspots, increased fencing and working with the Samaritans such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall level of disruption. Compensation payable under the Schedule 8 regime was over £900m higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 10: Other information, England & Wales – continued

In £m 2018-19 prices unless stated

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Traffic growth (both passenger and freight) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. There are a number of relatively smaller items on the opex memorandum at the end of control period 6. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed and there is also income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is added to the Opex memorandum. The control period balance also includes an adjustment for differences between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

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

In £m 2018-19 prices unless stated

			2018-19				
Service	**Staff**	**Agency**	**Contractors & consultants**	**Materials**	**Plant**	**Overheads**	**Total cost**
Operations	-	-	-	-	-	-	-
Maintenance	26	1	-	-	-	6	33
Renewals	-	-	-	-	-	-	-
Total	**26**	**1**	**-**	**-**	**-**	**6**	**33**

			Cumulative				
Service	**Staff**	**Agency**	**Contractors & consultants**	**Materials**	**Plant**	**Overheads**	**Total cost**
Operations	-	-	-	-	-	-	-
Maintenance	121	3	-	-	-	33	157
Renewals	-	-	-	-	-	-	-
Total	**121**	**3**	**-**	**-**	**-**	**33**	**157**

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

In £m 2018-19 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. This information is disclosed in line with the requirements of the Regulatory Accounting Guidelines (June 2017).

(2) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Charges levied by Network Rail are broadly in line with the prior year. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, England & Wales

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(59)	(12)	281	280	3.2%	1.61	pence per passenger train mile
Passenger farebox (millions)	(62)	(13)	9,807	9,899	4.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(31)	(6)	19	21	2.5%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(23)	(4)	21,656	22,683	3.1%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(175)**	**(35)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the continued structural decline in the freight market and passenger growth which has not been kept up with the ambitious increases assumed in the determination this year.

Statement 12: Volume incentives, England & Wales – continued

In £m 2018-19 prices unless stated

(2) Passenger train miles in the current year was higher than the previous year, with a growth of around 2.3 per cent as new services were included in the train schedule for passengers. The current year also benefitted from some a suppressed 2017/18 position due to impact of adverse weather (notably Storm Emma) and disruption caused by the delivery of Network Rail's ambitious enhancement programme. However, the regulator assumed growth of 3.1 per cent this year. In addition, Network Rail was below the regulator's expected Passenger train miles figure in 2017/18 meaning achieving the targets in this year was highly unlikely. Over the course of the control period, there is a net volume incentive hit for Passenger train miles as outperformance in earlier years has been offset by slower growth later in CP5. The 2016/17 results were adversely impacted from widespread industrial action in that year. The control period position has resulted in financial underperformance being recognised (refer to Statement 5a).

(3) Passenger farebox in the year was lower than the target, reflecting growth in passenger numbers being lower than the regulatory assumption. For the first three years of the control period this had been favourable due to increased income from passengers and higher train usage. Passenger farebox information is supplied by ORR.

(4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected, and this leaves Network Rail facing a penalty under this mechanism. The determination assumed that growth during the control period would have been over 12 per cent. However, the deterioration in demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security and lower demand) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media in recent years has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism requires. There is notable shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.

(5) Freight gross tonne miles has increased by around 3.5 per cent compared to the previous year, which is higher than the regulatory assumption for growth in 2018/19. However, as noted in the previous year's regulatory financial statements, traffic was already significantly below the regulatory target, meaning that there is still a penalty under this measure in the current year. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has a significant gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	379	245	390	768	508	371	218	509	905	562
	High Output Renewal	km	93	61	79	109	725	68	71	198	236	839
	Plain line Refurbishment	km	287	47	87	515	169	224	38	95	610	156
	S&C Renewal/Refurbishment	point ends	843	158	261	1,478	177	622	116	256	1,645	156
	Track Drainage	lm	103,337	33	73	262,757	0	135,923	29	78	319,632	0
	Fencing	km	258	15	80	1,643	49	244	12	83	1,704	49
	Slab Track	km	-	7	28	-	-	1	4	10	1	10,000
	Off track	km/No.	311	11	27	990	27	195	12	37	972	38
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**577**	**1,025**	**-**	**-**	**-**	**500**	**1,266**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	1,116	147	539	1,314	410	160	18	72	160	450
	Modular Resignalling	SEU	-	-	-	-	-	95	20	34	95	358
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	522	62	328	859	382	47	7	18	47	383
	Targeted Component Renewal	SEU	52	10	14	52	269	2	1	1	2	500
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	28	38	86	34	2,529	12	19	41	15	2,733
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**257**	**967**	**-**	**-**	**-**	**65**	**166**	**-**	**-**
Civils	Underbridges	m^2	36,655	79	222	88,278	3	52,111	66	203	96,633	2
	Overbridges (incl BG3)	m^2	10,073	27	68	19,268	4	12,529	24	61	16,625	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	18,792	10	23	31,082	1	11,899	11	24	36,656	1
	Culverts	m^2	3,702	4	10	4,657	2	2,166	5	10	4,148	2
	Footbridges	m^2	2,454	9	18	7,994	2	1,876	6	22	4,379	5
	Coastal & Estuarial Defences	m	2,052	2	5	3,859	1	5,611	3	8	6,855	1
	Retaining Walls	m^2	861	2	4	1,052	4	2,181	6	9	2,395	4
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	1,651	47	98	4,666	21	4,581	58	158	9,143	17
	EW Drainage	m	52,486	6	12	85,690	0	76,753	10	23	130,501	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**186**	**460**	**-**	**-**	**-**	**189**	**518**	**-**	**-**
Buildings	Buildings (MS)	m^2	3,780	2	2	4,152	0	854	-	1	956	1
	Platforms (MS)		1,500	1	1	1,500	1	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	3,503	-	1	12,169	0	2,826	1	1	10,413	0
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	122,834	2	8	185,042	0	73,725	5	8	195,951	0
	Buildings (FS)	m^2	3,249	2	2	4,005	0	9,578	3	5	11,242	0
	Platforms (FS)	m^2	37,610	8	11	41,760	0	7,847	3	7	12,413	1
	Canopies (FS)	m^2	6,225	3	4	8,425	0	2,000	2	8	12,079	1
	Train sheds (FS)	m^2	7,762	2	3	7,762	0	10,837	3	13	10,837	1
	Footbridges (FS)	m^2	1,276	5	14	3,992	4	1,567	3	19	5,332	4
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		81,886	5	10	93,192	0	47,538	3	10	88,274	0
	Light Maintenance Depots	m^2	52,039	3	4	58,447	0	80,105	8	11	87,208	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	23,377	4	8	36,176	0	9,475	1	6	26,402	0
	MDU Buildings	m^2	36,530	5	10	50,200	0	22,786	2	7	39,600	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**42**	**78**	**-**	**-**	**-**	**34**	**96**	**-**	**-**

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	56	11	73	213	343	48	13	63	169	373
	Mid-life refurbishment	Wire runs	1	6	12	6	2,000	-	-	-	-	-
	Structure renewals	No.	197	21	55	840	65	232	7	37	874	42
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	44	5	25	147	170	53	5	37	202	183
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	10	3	9	20	450	22	3	9	35	257
	HV cables DC	km	1	-	2	5	400	1	-	1	4	250
	LV cables DC	km	24	4	21	89	236	38	5	40	128	313
	Transformer Rectifiers DC		1	-	-	1	-	1	-	1	1	1,000
	LV switchgear renewal DC	No.	12	1	1	12	83	1	-	-	1	-
	Protection Relays DC	No.	-	-	-	-	-	22	-	2	64	31
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	41	-	6	163	37	128	2	11	265	42
	Signalling Power Cables	km	140	12	70	263	266	159	8	70	351	199
	Signalling Supply Points	No.	6	1	20	32	625	8	1	4	28	143
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**64**	**294**	**-**	**-**	**-**	**44**	**275**	**-**	**-**
Telecoms	Customer Information Systems	No.	807	12	19	1,514	13	509	2	7	983	7
	Public Address	No.	5,114	-	5	6,300	1	1,325	-	4	3,096	1
	CCTV	No.	205	1	4	948	4	497	-	2	539	4
	Other Surveillance	No.	213	4	7	264	27	31	2	4	164	24
	PABX Concentrator	No. lines	3,632	3	10	13,784	1	2,948	1	1	10,152	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	2	-	1	2	500	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	8	-	1	8	125
	HMI Small		5	-	-	5	-	-	-	-	-	-
	HMI Large	No.	23	-	1	124	8	30	-	1	101	10
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		12	-	1	49	20	49	-	-	49	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	6	-	-	13	-	21	1	2	44	45
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**20**	**48**	**-**	**-**	**-**	**6**	**22**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - The High Output volumes delivered in the year are slightly higher than the volumes delivered in the prior year. In high output volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The increased volumes tell the story of why the unit cost has decreased. In plain line refurbishment there was an increased in the unit cost in 2018-19 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. It is a similar story with off track as the mix of work between level crossings and longitudinal timbers can massively vary the unit costs.

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

In £m 2018-19 prices unless stated

(3) Signalling – Level crossings are a bespoke job type with similarities between projects being random. The level of work required and costs can vary depending on the type of level crossing as well as the possession charges which depend on track usage in that area. Therefore the decrease in unit cost from the prior year holds little information relating to over/under performance. There has been a decrease in the unit cost of targeted component renewals in the current year. However in the prior year there were only two volumes. Having a sample size so small invalidates any analysis because just one extra volume would increase the delivery by 50%.

(4) Civils – In the footbridges category there has been a decrease in the unit rate. This was due to the fact that in the current year there was a much higher proportion of preventative work (particularly in LNE) which is a lot cheaper than replacement work. In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore it is difficult to do any analysis on the category as a whole

(5) Electrical Power and Fixed Plant – There has been an increase in the unit cost of structure renewals in the year. The amount forecast volumes has not change in the three projects in this category however there has been an increase in the anticipated final cost of these projects which thus drives up the unit rate. There has been an increase in the unit rate of HV cables but there was only one project that spanned both years, so the sample size is too small for any meaningful analysis. There has been a dramatic increase in the unit rate of signalling supply points. However, this is primarily due to one large project in LNE that has been going since the previous control period. There were no volumes in the previous year on this project, so the significant costs were not included. However, this year there were volumes on this project which due to its legacy costs has a had a great effect on the until rate.

(6) Telecoms – There was a large increase in the unit rate in the year for Customer Information Screens. This was primarily due to the fact that there was lots of work on the Wessex route in the current year that was expensive and therefore had a particularly high unit rate. There has been a decrease in the unit rate of HMI Large. However there was only one project each year meaning that the sample size is so small it makes any analysis meaningless.

Statement 1: Summary regulatory financial performance, Scotland

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Income							
Grant Income	339	341	(2)	2,236	2,231	5	439
Fixed Income	255	255	-	717	718	(1)	162
Variable Income	86	92	(6)	428	437	(9)	83
Other Single Till Income	51	71	(20)	271	327	(56)	56
Opex memorandum account	-	-	-	4	-	4	4
Total Income	**731**	**759**	**(28)**	**3,656**	**3,713**	**(57)**	**744**
Operating expenditure							
Network operations	53	38	(15)	249	209	(40)	45
Support costs	46	45	(1)	230	245	15	42
Traction electricity, industry costs and rates	60	63	3	276	284	8	58
Network maintenance	160	110	(50)	656	596	(60)	128
Schedule 4	17	25	8	117	136	19	15
Schedule 8	30	-	(30)	56	2	(54)	22
Total operating expenditure	**366**	**281**	**(85)**	**1,584**	**1,472**	**(112)**	**310**
Capital expenditure							
Renewals	374	261	(113)	1,756	1,554	(202)	363
PR13 enhancement expenditure	482	380	(102)	1,799	1,813	14	364
Non PR13 enhancement expenditure	2	-	(2)	16	-	(16)	(1)
Total capital expenditure	**858**	**641**	**(217)**	**3,571**	**3,367**	**(204)**	**726**
Other expenditure							
Financing costs	224	227	3	891	997	106	222
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	**224**	**227**	**3**	**891**	**997**	**106**	**222**
Total expenditure	**1,448**	**1,149**	**(299)**	**6,046**	**5,836**	**(210)**	**1,258**

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.3bn higher than the regulatory comparative. This was mostly due to higher running capital investment. This was augmented by extra running costs, due to lower than expected efficiencies and higher Schedule 8 costs owing to train performance.

(3) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Network Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(4) Income – Fixed income was broadly in line with the regulator's expectation across the control period. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.

(5) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity income being partly offset by additional receipts from operators for running more services. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(6) Income – Other single till income in the year is lower than determination assumption once more due to lower freight and property income. The same factors are behind the control period variance. Income is slightly lower than the previous year which benefitted from some property disposals. These variances are set out in more detail in Statement 6a.

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(7) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This year there was no net variances. In the control period This amount recognised across the control period is mainly due to higher than assumed Business Rates costs and amounts recognised under the Volume incentive. The variances are set out in more detail in Statement 10.

(8) Operating expenditure - Network Operations costs are higher than the determination because of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from delivering more initiatives and extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Costs are higher than the previous year due to extra performance initiatives delivered this year and as extra capability is developed ahead of the challenges of CP6. Network Operations costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Support costs are broadly in line with the determination this year. For control period 5, costs are lower than the regulator's targets reflecting efficiencies achieved across the business. Support costs are higher than the previous year with minor net increases across a number of functions and activities. Support costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(11) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(12) Operating expenditure - Schedule 4 costs are lower than the determination mainly due to more effective possession management which has generated like-for-like savings. Costs are lower across the control period due to the same factor although this has been slightly offset by costs arising from externalities and weather events damaging the network. Costs are slightly higher than the previous year reflecting additional renewals works delivered in the current year. Schedule 4 costs are discussed in more detail in Statement 10.

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(13) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year). Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable, the impact of hot weather over the summer and operator driver shortages all contributed to this position. Most of the control period variances arose in the final two years as train performance has struggled. Schedule 8 costs are discussed in more detail in Statement 10.

(14) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the underlying activity deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

(15) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. Expenditure across the control period is broadly similar to the baseline which has been due to higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure was higher than the previous year with additional investment in ring-fenced funds directed by Transport Scotland as well as progress on Aberdeen to Inverness and Highland main line schemes being partly offset by lower expenditure on the Edinburgh to Glasgow Improvement Programme as the outputs of the scheme are now substantially delivered. These variances are set out in more detail in Statement 3.

(16) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(17) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are broadly in line with determination expectation as higher levels of average debt in the year have been offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period were lower than the regulatory target mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are only slightly higher than the previous year as higher levels of debt have been offset by lower interest costs, notably accreting on instruments. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Scotland

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**5,976**	**6,207**	**(231)**
Indexation to 2017-18 prices	735	763	(28)
Opening RAB for the year (2017-18 prices)	**6,711**	**6,970**	**(259)**
Indexation for the year	214	222	(8)
Opening RAB (2018-19 prices)	**6,925**	**7,192**	**(267)**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	356	261	95
PR13 enhancements	464	91	373
Non-PR13 enhancements	2	-	2
Total enhancements	466	91	375
Amortisation	(308)	(308)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**7,439**	**7,236**	**203**

RAB Regulatory financial position - cumulative, Scotland

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**5,592**	**5,886**	**6,182**	**6,538**	**6,925**	**5,592**
Adjustments for the actual capital expenditure outturn in CP4	(57)	-	-	-	-	(57)
Renewals	286	318	370	350	356	1,680
PR13 enhancements	345	254	283	345	464	1,691
Non-PR13 enhancements	6	9	(1)	-	2	16
Total enhancements	351	263	282	345	466	1,707
Amortisation	(285)	(285)	(296)	(308)	(308)	(1,482)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	-	(1)
Closing RAB	**5,886**	**6,182**	**6,538**	**6,925**	**7,439**	**7,439**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is noticeably lower than the regulator anticipated in its' determination. This is mostly due to lower enhancement investment undertaken by Network Rail in the opening two years of the control period (as outlined in the previous years' Regulatory financial statements) and from lower investment towards the end of CP4, after the ORR had published PR13. This position was partly offset by higher investment in 2017/18 when some of the underspends were caught up.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following agreed changes to the Rolling Programme of Electrification baselines between Network Rail, Transport Scotland and ORR as well as additional expenditure reported under Ring-fenced funds undertaken at the direction of Transport Scotland to drive improvements in the network ahead of control period 6. There is also an element of re-profiling from earlier years in the control period as well as some efficient overspend on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (measured through PPM), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Lower project expenditure – during the final year of control period 4 Network Rail undertook less capital expenditure compared to the assumption in the regulator's determination. This resulted in lower expenditure being logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Scotland

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**309**	**380**	**322**	**284**	**261**	**1,556**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	7	-	-	-	-	7
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**316**	**380**	**322**	**284**	**261**	**1,563**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(73)	(104)	3	27	33	(114)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(6)	(7)	(7)	(7)	(28)
Adjustments for efficient overspend	48	57	59	52	76	292
Capitalised financing on efficient overspend	1	3	6	8	12	30
25% retention of efficient overspend	(11)	(14)	(14)	(13)	(19)	(71)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(3)	(7)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	2	-	3	15
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	(1)	-	1	(1)	(2)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	1	-	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**286**	**318**	**370**	**350**	**356**	**1,680**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	3	2	1	(4)	2
Adjustment for 25% retention of efficient overspend	12	15	13	11	20	71
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	-	-	-	1	2	3
Total actual renewals expenditure (see statement 9)	**298**	**336**	**385**	**363**	**374**	**1,756**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**543**	**450**	**306**	**181**	**91**	**1,571**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	2	-	-	-	-	2
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	(53)	(145)	149	288	239
Capitalised financing on Baseline adjustments	-	(1)	(5)	(6)	4	(8)
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**545**	**396**	**156**	**324**	**383**	**1,804**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(196)	(172)	60	17	39	(252)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(12)	(15)	(14)	(14)	(59)
Adjustments for efficient overspend / (underspend)	-	53	106	17	65	241
Capitalised financing on efficient overspend / (underspend)	-	1	4	7	9	21
25% retention of efficient overspend / (underspend)	-	(12)	(27)	(4)	(16)	(59)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	(1)	(2)	(2)	(5)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	-	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**345**	**254**	**283**	**345**	**464**	**1,691**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	9	(2)	(1)	2	14
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1	-	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**6**	**9**	**(1)**	**-**	**2**	**16**
Total enhancements (added to the RAB - see statement 2a)	**351**	**263**	**282**	**345**	**466**	**1,707**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	4	11	17	14	2	48
Adjustment for 25% retention of efficient overspend	-	12	27	4	16	59
Other adjustments	2	-	-	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	6	20	22	20	13	81
Other adjustments	-	-	-	(1)	-	(1)
Total actual enhancement expenditure (see statement 3)	**363**	**306**	**348**	**382**	**497**	**1,896**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the government and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, the net deferral is about £0.1bn across the control period. This year, there was net acceleration of expenditure as some of the under spend experienced earlier in the control period was reversed.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – there were some projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted.

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes.

(12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.

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

In £m 2018-19 prices unless stated

(13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with a notable contribution in the current year from Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(15) Non-PR13 enhancements – not all the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Scotland

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 Baseline	2018-19 Difference	Cumulative Actual	Cumulative Baseline	Cumulative Difference
Funds						
Scottish stations fund	25	7	(18)	33	38	5
Scottish strategic rail freight investment fund	6	7	1	26	36	10
Scottish network improvement fund	90	14	(76)	128	72	(56)
Future network development fund	2	3	1	7	12	5
Level crossings fund	7	4	(3)	13	16	3
Total funds	**130**	**35**	**(95)**	**207**	**174**	**(33)**
Committed projects						
Edinburgh Glasgow Improvements Programme (EGIP) Electrification of Springburn to Cumbernauld	6	-	(6)	16	18	2
Edinburgh Glasgow Improvements Programme (EGIP) Edinburgh to Glasgow Electrification	17	-	(17)	544	208	(336)
Edinburgh Glasgow Improvements Programme (EGIP) Edinburgh Gateway Station	-	-	-	3	43	40
Edinburgh Glasgow Improvements Programme (EGIP) Infrastructure Projects	32	2	(30)	85	302	217
Border Railway Project	-	1	1	201	200	(1)
Total committed projects	**55**	**3**	**(52)**	**849**	**771**	**(78)**
Named Schemes						
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	124	114	(10)	254	268	14
Rolling programme of electrification (Scotland)	140	205	65	413	381	(32)
Carstairs journey time improvements	-	-	-	1	2	1
Highland main line journey time improvements (phase 2)	36	11	(25)	46	138	92
Motherwell area stabling	-	-	-	-	11	11
Motherwell resignalling enhancements	(2)	-	2	-	3	3
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland:	**298**	**330**	**32**	**714**	**803**	**89**
Other projects						
Seven day railway projects	-	-	-	6	10	4
ERTMS Cab fitment	-	1	1	-	1	1
R&D allowance	-	2	2	1	6	5
Income generating property schemes	(1)	5	6	22	27	5
Other income generating investment framework schemes	-	4	4	-	21	21
Total other projects	**(1)**	**12**	**13**	**29**	**65**	**36**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**482**	**380**	**(102)**	**1,799**	**1,813**	**14**
B) Investments not included in PR13						
Government sponsored schemes						
Borders New Railway	-	-	-	8	-	(8)
Other government sponsored schemes	2	-	(2)	5	-	(5)
Total Government sponsored schemes	**2**	**-**	**(2)**	**13**	**-**	**(13)**
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	**2**	**-**	**(2)**	**16**	**-**	**(16)**
Total Network Rail funded enhancements (see Statement 1)	**484**	**380**	**(104)**	**1,815**	**1,813**	**(2)**
Third Party PAYG	**13**	**-**	**(13)**	**81**	**-**	**(81)**
Total enhancements (see statement 2b)	**497**	**380**	**(117)**	**1,896**	**1,813**	**(83)**

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

In £m 2018-19 prices unless stated

Note:

(1) The adjusted PR13 values in the table represent the regulator's latest expected cost by programme, incorporating changes arising through the ECAM (Enhancements Cost Adjustment Mechanism) process or from other agreed funding alterations.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £484m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£497m) less the PAYGO schemes funded by third parties (£13m).

(5) Investment expenditure this year was higher than the previous year with additional investment in ring-fenced funds directed by Transport Scotland as well as progress on Aberdeen to Inverness and Highland main line schemes being partly offset by lower expenditure on the Edinburgh to Glasgow Improvement Programme as the outputs of the scheme are now substantially delivered.

(6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline this year and across the control period due to additional investment agreed with Transport Scotland to utilise the headroom in the CP5 loan. Noteworthy variances between expenditure in the year and the baseline are set out below:

   a. Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been higher than planned which has helped mitigate some of the underspends experienced in earlier years of the control period. Across the control period, investment has been slightly lower than the regulatory assumption as fewer suitable projects have been identified and delivered. Expenditure this year includes projects to improve accessibility at Addiewell station and on the Shotts line, as well as work at Dunblane and Robroyston.

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

In £m 2018-19 prices unless stated

b. Scottish strategic Rail Freight Investment Fund - the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year is consistent with the regulatory expectation, but lower investment earlier in the control period has meant that expenditure in the control period is lower than the determination.

c. Scottish network improvement fund - the purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year is noticeably higher than the determination. As agreed with Transport Scotland, headroom available in the CP5 loan agreement was channelled through this fund to deliver improvements for passengers in Scotland. This included work at Polmaide & Rutherglen, extra depot works, Blackford South connection improvements and installation of superfast wi-fi facilities at stations. As these increases in scope have been agreed with Transport Scotland, the delivery of additional outputs are outside the scope of financial performance assessments.

d. Future network development fund – this fund is to finance or support the development of proposals for strategic interventions to improve the capacity and capability of the Scottish network in CP6 and beyond. Expenditure in the year and the control period is slightly lower than the baselines as fewer schemes have been identified and delivered than the regulator expected.

e. Level Crossings fund – this fund is designed to reduce risk at level crossings to improve public and passenger safety. Expenditure in the current year is higher than the baseline which has helped reverse some of the underspend experienced in earlier years of the control period. Investment this year included Pitmedden level crossing closure and Panholes public level crossing works.

(7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period in this category is higher the baseline, mostly due to higher investment on the Edinburgh Glasgow Improvement Programme. The notable variances between expenditure and the baseline are set out below:

a. Edinburgh Glasgow Improvements Programme - the key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. This programme should be considered in totality across the various sub-projects. Spend in the current year is higher than the regulatory assumption which expected the programme to have progressed further by the end of CP5. Those projects that have been delivered have been at a higher underlying cost which has resulted in financial underperformance being recognised (refer tot Statement 5).

b. Border Railway Project - this project will provide a new rail route between Newcraighall and Tweedbank with 7 new stations to permit operation of a half hourly passenger service. Costs in the year are minimal as the programme has largely completed. Expenditure across the control period is in line with the regulatory expectation.

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

In £m 2018-19 prices unless stated

(8) PR13 funded schemes – named schemes - expenditure in the year is less than the baseline adding to underspend from earlier years in the control period. This is due to variances across a number of schemes, with the largest variance arising this control period arising on the Highland main line journey time improvements (phase 2) project. The following notable variances between expenditure and baselines 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 across the control period was slightly lower than baseline agreed with ORR and Transport Scotland. Despite this, financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs. This has been more than offset by delays in the programme mainly due to changes in blockade strategy to reduce passenger disruption and to tie into other programmes in the route, such as Rolling Programme of Electrification.

b. Rolling programme of electrification (Scotland) - this project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been lower than the regulator assumed for the year but higher across the control period. These higher costs are mostly due to higher overall programme costs which is reflected in the level of financial underperformance in CP5 (refer to Statement 5a).

c. Highland main line journey time improvements (phase 2) - this project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. Expenditure in the control period is lower than the baseline as project delivery has been reprofiled into future years as part of the overall rail strategy in Scotland.

d. Motherwell area stabling - this project will electrify the remaining ‘back of Shops’ sidings to permit the stabling of additional EMUs at Motherwell required by the electrification with a longer-term target to consolidate all stabling at Motherwell on one site with appropriate cleaning and servicing facilities. In line with Network Rail’s own internal plan, there has been limited activity on this project in the control period compared to the regulatory assumption. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR

(9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline across the control period mainly due to lower investment in Other income generating framework schemes. Notable variances to the baseline include:

a. R&D allowance – there has been minimal investment in this fund across the control period compared to the regulatory expectation. Most of the R&D works is completed centrally in order to pool expertise and create economies of scale. In England & Wales there was a major reduction to the R&D planned funding following the Hendy review and subsequent change control which had a knock-on impact in the amount of R&D attributed to Scotland.

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

In £m 2018-19 prices unless stated

b. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure across the control period is lower than the regulator's target. Schemes are only undertaken in this category if there is a sufficiently compelling business case. Fewer such schemes have been defined this control period.

c. Other income generating investment framework schemes – investment has been minimal this control period. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and these haven't been identified, with funds used more effectively elsewhere in Scotland.

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements. Notable items include.

a. Government sponsored – as with previous years, there is minimal spend in this category. Transport Scotland's current strategy is to fund desired projects directly through the PAYGO mechanism.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period

c. Discretionary investment – expenditure earlier in the control period relates to the CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).

d. PAYGO – this year the main items of expenditure in this category relate to Access for All schemes to improve the facilities at stations so all sections of society can use them. This included work at Kilwinning and Kilmarnock stations.

Statement 4: Net debt and financial ratios, Scotland

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**4,682**	**4,718**	**36**	**2,965**	**3,025**	**60**
Income						
Grant income	(339)	(341)	(2)	(2,102)	(2,097)	5
Fixed charges	(255)	(255)	-	(687)	(686)	1
Variable charges	(86)	(92)	(6)	(403)	(414)	(11)
Other single till income	(51)	(71)	(20)	(256)	(308)	(52)
Total income	**(731)**	**(759)**	**(28)**	**(3,448)**	**(3,505)**	**(57)**
Expenditure						
Network operations	53	38	(15)	235	199	(36)
Support costs	46	45	(1)	216	231	15
Traction electricity, industry costs and rates	60	63	3	262	267	5
Network maintenance	160	110	(50)	622	562	(60)
Schedule 4	17	25	8	110	129	19
Schedule 8	30	-	(30)	55	1	(54)
Renewals	374	261	(113)	1,663	1,460	(203)
PR13 enhancement	482	91	(391)	1,709	1,453	(256)
Non-PR13 enhancement	2	-	(2)	15	-	(15)
Total expenditure	**1,224**	**633**	**(591)**	**4,887**	**4,302**	**(585)**
Financing						
Interest expenditure on nominal debt - FIM covered	24	87	63	170	351	181
Interest expenditure on index linked debt - FIM covered	25	31	6	113	137	24
Expenditure on the FIM	26	52	26	141	228	87
Interest expenditure on government borrowing	102	-	(102)	244	-	(244)
Interest on cash balances held by Network Rail	(1)	(3)	(2)	(3)	(11)	(8)
Total interest costs	**176**	**167**	**(9)**	**665**	**705**	**40**
Accretion on index linked debt - FIM covered	48	60	12	190	292	102
Total financing costs	**224**	**227**	**3**	**855**	**997**	**142**
Corporation tax	-	-	**-**	-	-	**-**
Other	(62)	-	**62**	78	-	**(78)**
Movement in net debt	**655**	**101**	**(554)**	**2,372**	**1,794**	**(578)**
Closing net debt	**5,337**	**4,819**	**(518)**	**5,337**	**4,819**	**(518)**

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

(£m, nominal prices)	March 2019 £m	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	655	638	438	270	371
Represented by:					
New debt issued					
Market issued debt	-	-	-	-	-
Borrowing from government	1,177	766	549	679	591
Accretion on index linked debt	48	62	40	20	20
Debt repaid	(444)	(291)	(215)	(279)	(218)
Decrease/ (increase) in net cash balances	(81)	(35)	73	(87)	23
Other	(45)	136	(9)	(63)	(45)
Increase in net debt	**655**	**638**	**438**	**270**	**371**

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

In £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	March 2019 £m	March 2019 % of total borrowing	March 2018 £m	March 2018 % of total borrowing	March 2017 £m	March 2017 % of total borrowing	March 2016 £m	March 2016 % of total borrowing	March 2015 £m	March 2015 % of total borrowing
Market issued debt										
Nominal borrowings (GBP)	402	7%	407	8%	463	11%	511	13%	687	20%
Nominal borrowings (Foreign currency)	30	1%	192	4%	256	6%	428	11%	544	16%
Total nominal borrowings	**432**	**8%**	**599**	**12%**	**719**	**17%**	**939**	**24%**	**1,231**	**36%**
Index linked borrowings (GBP)	1,771	32%	1,747	36%	1,632	39%	1,594	42%	1,594	47%
Borrowing from government	3,368	60%	2,488	51%	1,810	44%	1,263	34%	591	17%
Total regulatory borrowings	**5,571**	**100%**	**4,834**	**100%**	**4,161**	**100%**	**3,796**	**100%**	**3,416**	**100%**
Uncleared cash items										
Obligations under finance lease										
Net cash balances	(233)		(152)		(117)		(190)		(80)	
Regulatory net debt as at 31 March 2018	**5,337**		**4,682**		**4,044**		**3,606**		**3,336**	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	1.23	1.09	1.01	0.77	0.32	1.02
FFO/interest	2.95	2.94	2.65	2.72	2.07	2.87
Net debt/RAB (gearing)	62.7%	63.9%	66.4%	69.8%	71.7%	66.6%
FFO/debt	11.7%	10.4%	9.9%	8.9%	6.8%	9.9%
RCF/debt	8.5%	7.5%	6.9%	5.6%	3.5%	6.5%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.

(2) Network Rail's debt attributable to Scotland has increased by £0.7bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.

(3) Net debt attributable to Scotland at 31 March 2019 is £0.5bn higher than the regulator assumed mainly due to higher capital investment this year compared to the original regulatory assumption, notably in enhancements.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are 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 similar to the regulatory assumption for this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation offset by lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2017/18.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short-term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are lower than the previous year which reflects the lower inflation rates experienced in the current year.

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

(14) This year, we have enhanced our allocation of working capital movements to Scotland, to reflect, for example, the disposal of the commercial property estate in England & Wales, to improve transparency for our different funders

(15) Analysis of the movement in Network Rail's net debt – section B) – this section sets out how the increase in net debt this year was financed. As the statement shows this year there was further borrowings from government, which included refinancing nominal debt from third parties that reached maturity this year (at Great Britain level this including a $1,750m USD bond and a $1,000m USD bond). The decrease in cash balances this year is mainly a result of net movements in derivatives. Network Rail has entered into derivative contracts to hedge the risk of interest rate and foreign exchange movements. Depending upon the difference in the notional value of these hedges and the market price on each individual contract, Network Rail either must post collateral with counterparties or receives collateral payments from them. The collateral positions are classified as cash holdings in the Regulatory financial statements. The volatility in this position can be seen by the movements across each year of the control period.

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

In £m nominal unless otherwise stated

(16) Analysis of Network Rail's net debt – section C) – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. It is, therefore, not surprising that proportion of market issued debt has decreased in the year. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms due to bonds that have matured in the current year (as noted above) have been replaced by drawdowns against the DfT loan facility. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature until at least control period 7 but the nature of these items means that most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt is in line with the previous year.

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(19) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs and lower turnover (freight and property rental) as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher net operating costs incurred in running the business and preparing for control period 6.

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

In £m nominal unless otherwise stated

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

(21) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operating costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10 and higher maintenance costs are set out in Statement 8a. These factors are partly offset by lower interest costs (as noted above). The nature of Network Rail's business and its high level of capital investment in the current year has led to an increase in the ratio compared to the previous year. This has been exacerbated by higher maintenance and performance regime costs this year. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(22) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt than the regulator assumed which is due to higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements and scope changes requested by Transport Scotland. The decline in the ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to extra costs to prepare for control period 6, some additional items delivered and higher performance regime costs.

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

In £m nominal unless otherwise stated

(23) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Scotland

In £m 2018-19 prices unless stated

2018-19

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	339	341	(2)	(2)	-	-	-	-
Fixed Income	255	255	-	-	-	-	-	-
Variable Income	62	61	1	-	-	-	1	1
Other Single Till Income	51	71	(20)	-	-	-	(20)	(20)
Opex memorandum account	-	-	-	2	-	-	(2)	(2)
Total Income	**707**	**728**	**(21)**	**-**	**-**	**-**	**(21)**	**(21)**
Expenditure								
Network operations	53	38	(15)	-	-	-	(15)	(15)
Support costs	46	45	(1)	-	-	-	(1)	(1)
Industry costs and rates	35	31	(4)	(2)	-	-	(2)	(2)
Traction electricity	1	1	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	160	110	(50)	-	-	-	(50)	(50)
Schedule 4 costs	17	25	8	-	(5)	-	13	13
Schedule 8 costs	30	-	(30)	-	-	-	(30)	(30)
Renewals	374	261	(113)	-	(37)	-	(76)	(19)
PR13 Enhancements	482	380	(102)	-	(37)	-	(65)	(15)
Non PR13 Enhancements	2	-	(2)	-	(2)	-	-	-
Financing Costs	224	227	3	3	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	**1,424**	**1,118**	**(306)**	**1**	**(81)**	**-**	**(226)**	**(119)**
Total:			**(327)**	**1**	**(81)**	**-**	**(247)**	**(140)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(140)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(14)
Under-delivery of train performance requirements (CaSL)	(1)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(15)**
Total financial out / (under) performance to be recognised	**(155)**

Statement 5a: Total financial performance, Scotland - continued

In £m 2018-19 prices unless stated

	Cumulative								
	Actual	**Adjusted PR13**	**Variance to adjusted PR13**	**Due to:**	**Variance not included in total financial performance**	**Variances in volume of work**	**Other adjustments to PR13**	**Final Variance**	**Financial out / (under) performance**
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	2,236	2,231	5	-	5	-	-	-	-
Fixed Income	717	718	(1)	-	(1)	-	-	-	-
Variable Income	321	308	13	-	-	-	-	13	13
Other Single Till Income	271	327	(56)	-	-	-	-	(56)	(56)
Opex memorandum account	4	-	4	-	3	-	-	1	1
Total Income	**3,549**	**3,584**	**(35)**	**-**	**7**	**-**	**-**	**(42)**	**(42)**
Expenditure									
Network operations	249	209	(40)	-	-	-	-	(40)	(40)
Support costs	230	245	15	-	4	-	-	11	11
Industry costs and rates	166	149	(17)	-	(5)	-	-	(12)	(12)
Traction electricity	3	5	2	-	-	-	-	2	2
Reporter's fees	-	1	1	-	1	-	-	-	-
Network maintenance	656	596	(60)	-	-	5	-	(65)	(65)
Schedule 4 costs	117	136	19	-	-	12	-	7	7
Schedule 8 costs	56	2	(54)	-	-	-	-	(54)	(54)
Renewals	1,756	1,554	(202)	-	-	88	-	(290)	(73)
PR13 Enhancements	1,799	1,813	14	-	-	254	-	(240)	(60)
Non PR13 Enhancements	16	-	(16)	-	-	(16)	-	-	-
Financing Costs	891	997	106	-	106	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-
Total Expenditure	**5,939**	**5,707**	**(232)**	**-**	**106**	**343**	**-**	**(681)**	**(284)**
Total:			**(267)**		**113**	**343**	**-**	**(723)**	**(326)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(326)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(26)
Under-delivery of train performance requirements (CaSL)	(3)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(4)
Missed Enhancement milestones	(1)
Total adjustment for under-delivery outputs	**(34)**
Total financial out / (under) performance to be recognised	**(360)**

Statement 5a: Total financial performance, Scotland - continued

In £m 2018-19 prices unless stated

	2018-19			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	(24)	(31)	7	(107)	(129)	22
Total variance not included in total financial performance:	**(24)**	**(31)**	**7**	**(107)**	**(129)**	**22**
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	-	-	-	2	-	2
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total financial performance:	**-**	**-**	**-**	**4**	**-**	**4**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	24	31	(7)	107	129	(22)
Total variance not included in total financial performance:	**24**	**31**	**(7)**	**107**	**129**	**(22)**

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – the minor variances are due to differences in inflation assumptions (considered in more detail in Statement 6a). In line with the regulator's FPM guidelines no financial outperformance is recognised against these factors.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(3) Variable income – additional income has been generated this control period through 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. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. This is mainly due to the continued decline in freight traffic (largely driven by demand for coal transportation) freight income and lower property rental income. Underperformance has been reported in the control period for the same reason. The growth in property rental income assumed in the determination now seems unrealistic, especially given the rental yields that the determination assumed that property investments would deliver. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves penalties under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. In the current year slower freight growth owing structural changes in the industry meaning financial underperformance was recognised. Across the control period, outperformance has been achieved due to additional passenger journeys. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(6) Network operations costs in 2018/19 are around 40 per cent higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. This year has also seen additional investment in staff welfare facilities and performance improvement initiatives to reduce delays across the network. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. extra services delivered this year and an increase in the size and scope of the function to prepare for the challenges included in the regulator's recently published CP6. This includes the development of a larger System Operator team to support the industry. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – for the first time in the control period, Support costs are higher than the determination as the scale of savings expected by the regulator this year has not been achieved. In addition, there has been some additional investment to prepare the organisation for the challenges of control period 6, including additional investment in IT, telecoms and engineering standards as well as increasing organisational capability, which have been partly mitigated by reductions in expected liabilities under legacy insurance arrangements. Over the course of the control period, however, there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight (which are included as part of the Other single till income variance). The control period position reflects similar factors to those noted above.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. In addition, there has been extra investment in devegetation works to improve train performance and help deliver a more reliable service for passengers. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

(11) Schedule 4 costs – costs are lower this year than the determination assumed which is a result of effective possession management resulting in lower like-for-like costs. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). Fewer late possessions and effective work packaging to combine renewals and enhancements work has resulted in savings, as has working closely with the main operator to minimise disruption for passengers. Financial outperformance has been reported for the control period for the reasons noted above. This has been partly mitigated by the adverse impact of weather events which have added costs during the control period, most notably damage to Lamington viaduct and subsequent line closure whilst the infrastructure was repaired.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(12) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulator's targets for this year. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail must do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall level of disruption. Compensation payable under the Schedule 8 regime was higher than the regulator's assumption in CP5 with most of the impact occurring in the final two years of the control period. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail must pay for under the current mechanism) due to franchise issues. Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer service

(13)Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

(14) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with Transport Scotland to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Edinburgh Glasgow Improvements Programme (EGIP) and Rolling Programme of Electrification projects. The control period position is largely dominated by Edinburgh Glasgow Improvements Programme (EGIP) underperformance. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(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. 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 similar to the regulatory expectation. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail’s ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail’s reclassification.

Statement 5a: Total financial performance, Scotland – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality targets were missed in 2018/19, continuing the trend from earlier years of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £0.25m (cash prices) for every 0.1 per cent that the PPM target of 92.5 per cent was missed.

(3) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(33)	(17)	(16)	(4)		(4)	-	-
Signalling	(53)	(37)	(16)	(4)		(4)	-	-
Civils	(14)	14	(28)	(7)		(5)	(2)	-
Buildings	(12)	(4)	(8)	(2)		(2)	-	-
Electrical power and fixed plant	(14)	(10)	(4)	(1)		-	(1)	-
Telecoms	(3)	(3)	-	-		-	-	-
Wheeled plant and machinery	(2)	(2)	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	21	25	(4)	(1)		(1)	-	-
Total	**(113)**	**(37)**	**(76)**	**(19)**		**(16)**	**(3)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(168)	(24)	(144)	(36)		(33)	(3)	-
Signalling	41	109	(68)	(17)		(18)	1	-
Civils	(78)	(26)	(52)	(13)		(2)	(11)	-
Buildings	5	17	(12)	(3)		(4)	1	-
Electrical power and fixed plant	(6)	2	(8)	(2)		-	(2)	-
Telecoms	3	3	-	-		1	(1)	-
Wheeled plant and machinery	25	25	-	-		-	-	-
IT	(13)	(13)	-	-		-	-	-
Property	(11)	(7)	(4)	(1)		-	(1)	-
Other renewals	-	2	(2)	(1)		-	(1)	-
Total	**(202)**	**88**	**(290)**	**(73)**		**(56)**	**(17)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been financial underperformance in the current year. Around one-third of this was expected in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes many categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of weather damage (such as Lochailort and Ballieston) with the most significant being damage to Lamington viaduct which resulted in extensive remediation costs.

(5) Buildings – financial underperformance has been reported this year which has contributed to the underperformance for the control period. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Unit costs for Franchised stations-related expenditure has not met the regulator’s assumptions. In addition, emergency works at Wenyss Bay following weather related damage necessitated unplanned expenditure.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. Extra volumes have been required on certain projects which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	(53)	(18)	-	(35)	(8)
Rolling programme of electrification (Scotland)	65	92	-	(27)	(6)
Aberdeen to Inverness journey time improvements and other enhancements	(10)	(7)	-	(3)	(1)
Seven day railway	-	-	-	-	-
Other Enhancements	(106)	(106)	-	-	-
Total	**(104)**	**(39)**	**-**	**(65)**	**(15)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	(77)	121	-	(198)	(50)
Rolling programme of electrification (Scotland)	(32)	2	-	(34)	(8)
Aberdeen to Inverness journey time improvements and other enhancements	14	22	-	(8)	(2)
Seven day railway	4	4	-	-	-
Other Enhancements	89	89	-	-	-
Total	**(2)**	**238**	**-**	**(240)**	**(60)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. Programme baselines are also subject to alteration following a Change Control process which involves Network Rail, ORR and Transport Scotland agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting in a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs, and supplementary design costs. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions as has poor weather which has impacted on-site delivery progress. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme. Finally, issues at Edinburgh Waverly station, including discovery and subsequent remediation of asbestos and unforeseen ground conditions under the location of the new platform sites have caused delays and additional costs.

(2) Rolling programme of electrification (Scotland) – during the year programme costs have increased. This includes extra costs to meet programme deadlines, higher than expected contractor costs, delays in cantilever delivery and protracted disputes over access with landowners and utilities which has led to delays in programme delivery and so higher costs.

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

In £m 2018-19 prices unless stated

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

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

Statement 5d: Total financial performance - REBS performance, Scotland

In £m 2018-19 prices unless stated

			Cumulative to 2018-19				
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	98	109	(11)	-	-	-	(11)
Capacity charge	107	102	5	-	-	-	5
Electricity asset utilisation charge	7	7	-	-	-	-	-
Property income	76	97	(21)	-	-	-	(21)
Expenditure							
Network operations	249	209	(40)	-	-	-	(40)
Support costs	230	245	15	-	2	-	13
RSSB and BT Police	55	43	(12)	-	-	-	(12)
Network maintenance	656	596	(60)	(7)	-	-	(53)
Schedule 4 costs	117	138	21	14	-	-	7
Schedule 8 costs	56	-	(56)	-	-	-	(56)
Renewals	1,756	1,509	(247)	43	-	(217)	(73)
Total REBS performance			**(406)**	**50**	**2**	**(217)**	**(241)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(26)
Under-delivery of train performance requirements (CaSL)	(3)
Missed milestones for asset management - data quality	-
Missed ORBIS milestones	(4)
Total adjustment for under delivery of outputs and reduced sustainability	**(33)**
Cumulative performance to end of 2018-19	**(274)**
Less cumulative outperformance recognised up to the end of 2017-18	(141)
Net REBS performance for 2018-19	**(133)**

Where: $C = B - A$

And: $F = (C - D - E) \times 75\%$ only applies to renewals

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

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

In £m 2018-19 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.

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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**339**	**341**	**(2)**	**2,236**	**2,231**	**5**	**439**
Franchised track access income							
Fixed charges	**255**	**255**	**-**	**717**	**718**	**(1)**	**162**
Variable charges							
Variable usage charge	16	16	-	80	75	5	15
Traction electricity charges	24	31	(7)	107	129	(22)	21
Electrification asset usage charge	2	2	-	7	7	-	1
Capacity charge	21	20	1	107	99	8	22
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	23	23	-	127	127	-	24
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**86**	**92**	**(6)**	**428**	**437**	**(9)**	**83**
Total franchised track access income	**341**	**347**	**(6)**	**1,145**	**1,155**	**(10)**	**245**
Total franchised track access and grant income	**680**	**688**	**(8)**	**3,381**	**3,386**	**(5)**	**684**
Other single till income							
Property income	15	25	(10)	83	111	(28)	19
Freight income	4	13	(9)	23	54	(31)	4
Open access income	-	-	-	-	-	-	-
Stations income	23	23	-	116	115	1	23
Facility and financing charges	-	2	(2)	5	7	(2)	1
Depots Income	9	8	1	44	38	6	9
Other income	-	-	-	-	2	(2)	-
Total other single till income	**51**	**71**	**(20)**	**271**	**327**	**(56)**	**56**
Total income	**731**	**759**	**(28)**	**3,652**	**3,713**	**(61)**	**740**

Statement 6a: Analysis of income, Scotland – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is lower than the regulator expected this year, mainly as a result of lower electricity income (which is offset by savings in the costs Network Rail pays to acquire electricity), lower property income (due to lower sales and slower rental income growth) and lower freight revenue (as a result of structural declines in the coal transportation market). Income across the control period was lower than the regulator expected which was due to the same three factors noted above. Income was lower than the previous year mainly due to lower income from grants and fixed track access as planned in the regulator’s determination.

Statement 6a: Analysis of income, Scotland – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is broadly in consistent with the determination assumed. The minor variance is due to differences in inflation factors. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Transport Scotland are lagged by a year in line with the Deed of Grant arrangement. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was broadly in line with determination this year and for the control period as a whole. Fixed charges are higher than last year, but this is due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Variable usage charge – income from variable usage charges paid by train operators has met the regulatory target this year. Across the control period, extra income has been earned from running more trains than the determination expected, particularly in the earlier years of the control period, in response to additional operator and passenger demand. Income is consistent with the previous year.

(6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, Scotland – continued

In £m 2018-19 prices unless stated

(7) Capacity charge – income from variable usage charges paid by train operators has met the regulatory target this year. Across the control period, extra income has been earned from running more trains than the determination expected, particularly in the earlier years of the control period, in response to additional operator and passenger demand. Income is consistent with the previous year.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Therefore, as expected, income in the year and the control period is in line with the regulator's determination. Income was consistent with the previous year, which was in line with the regulator's assumption.

(9) Property income – property income in the current year is lower than the regulator expected, with shortfalls in both Property rental and Property sales, which continues the trend of the earlier years of the control period. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. This year there were no significant disposals. The lower property rental is in line experience in previous years where the growth assumed by the regulator has not been achieved. The determination assumed that investment in property schemes would yield significant dividends, considerably higher than market norms. This has not been achieved. Lower investment in income-generating schemes has preserved funding but has contributed to the shortfall in revenue. A lack of suitable schemes that could generate appropriate returns have been identified. Property income is lower than the previous year due to lower sales and rental income.

(10) Freight Income – this is well below the regulator's determination this year continuing the trend of the rest of the control period. A large part of this is due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. Income is in line with the previous year.

(11) Depots income – revenue is in line with the regulatory expectation in the current year but higher for the control period as a whole mainly due to extra facilities offered to train operators. Income is broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	15	25	(10)	79	109	(30)	17
Property sales	-	2	(2)	4	13	(9)	2
Adjustment for commercial opex	-	(2)	2	-	(11)	11	-
Total property income	**15**	**25**	**(10)**	**83**	**111**	**(28)**	**19**
Freight income							
Freight variable usage charge	3	7	(4)	18	34	(16)	3
Freight traction electricity charges	1	1	-	2	5	(3)	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	-	3	(3)	-
Freight only line charge	-	1	(1)	2	5	(3)	-
Freight specific charge	-	2	(2)	-	3	(3)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	1	4	(3)	-
Total freight income	**4**	**13**	**(9)**	**23**	**54**	**(31)**	**4**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stations income							
Managed stations income							
Long term charge	3	3	-	15	14	1	3
Qualifying expenditure	5	5	-	26	25	1	5
Total managed stations income	8	8	-	41	39	2	8
Franchised stations income							
Long term charge	13	13	-	66	64	2	12
Stations lease income	2	2	-	9	12	(3)	3
Total franchised stations income	15	15	-	75	76	(1)	15
Total stations income	**23**	**23**	**-**	**116**	**115**	**1**	**23**
Facility and financing charges							
Facility charges	-	2	(2)	5	7	(2)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**-**	**2**	**(2)**	**5**	**7**	**(2)**	**1**
Depots income	**9**	**8**	**1**	**44**	**38**	**6**	**9**
Other	**-**	**-**	**-**	**-**	**2**	**(2)**	**-**
Total other single till income	**51**	**71**	**(20)**	**271**	**327**	**(56)**	**56**

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

In £m 2018-19 prices unless stated

Note:

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

Comments:

(1) Overall, single till income is lower than the regulator expected this year and across the control period. This is mainly due to lower freight income (as a result of structural declines in the coal transportation market), lower property rental turnover and fewer property sales. Income was lower than the previous year due to fewer property disposals and slightly lower property rental income.

(2) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is below the regulatory expectation for both current year and the control period with the gap to the determination widening with each passing year of control period 5. The growth assumed by the regulator has not been achieved. The determination assumed that investment in property schemes would yield significant dividends, considerably higher than market norms. This has not been achieved. Lower investment in income-generating schemes has preserved funding but has contributed to the shortfall in revenue. A lack of suitable schemes that could generate appropriate returns have been identified.

(3) Property sales – there were no major disposals in the current year and so the income is less than the regulatory assumption. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Disposals over the control period have been less than the regulator assumed. Although this results in a shortfall in revenue this year, it means that the assets are still within the organisation and available for commercial exploitation in the future.

(4) Freight Income – this is well below the regulator's determination this year continuing the trend of the rest of the control period. A large part of this is due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) but lower income. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. Income is in line with the previous year.

(5) Depots income – revenue is in line with the regulatory expectation in the current year but higher for the control period as a whole mainly due to extra facilities offered to train operators. Income is broadly in line with the previous year.

Statement 6c: Analysis of income by operator, Scotland

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Cross Country						
Variable Usage Charges	0.8	0.8	0.8	0.9	0.8	4.1
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.8	2.0	1.9	1.7	1.8	9.2
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	0.2	0.2	0.2	0.2	0.2	1.0
Station QX	0.3	0.3	0.3	0.3	0.3	1.5
Other Charges	-	-	-	-	-	-
Total income	**3.1**	**3.3**	**3.2**	**3.1**	**3.1**	**15.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
East Coast Main Line Rail						
Variable Usage Charges	2.2	-	-	-	-	2.2
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	0.1	-	-	-	-	0.1
Capacity Charges	3.6	-	-	-	-	3.6
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	0.3	-	-	-	-	0.3
Station QX	0.5	-	-	-	-	0.5
Other Charges	1.5	-	-	-	-	1.5
Total income	**8.2**	**-**	**-**	**-**	**-**	**8.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin East Coast						
Variable Usage Charges	0.2	2.4	2.5	2.4	0.8	8.3
Traction Electricity Charges	-	-	-	1.8	0.6	2.4
Electrification Asset Usage Charges	-	0.1	0.1	0.1	-	0.3
Capacity Charges	0.4	3.8	4.1	4.1	1.3	13.7
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	0.3	0.3	0.3	0.1	1.0
Station QX	-	0.6	0.6	0.6	0.2	2.0
Other Charges	0.1	1.8	1.7	1.5	0.4	5.5
Total income	**0.7**	**9.0**	**9.3**	**10.8**	**3.4**	**33.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
London North Eastern Railway						
Variable Usage Charges	-	-	-	-	1.7	1.7
Traction Electricity Charges	-	-	-	-	1.4	1.4
Electrification Asset Usage Charges	-	-	-	-	0.1	0.1
Capacity Charges	-	-	-	-	2.9	2.9
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	0.2	0.2
Station QX	-	-	-	-	0.4	0.4
Other Charges	-	-	-	-	0.6	0.6
Total income	**-**	**-**	**-**	**-**	**7.3**	**7.3**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Scotrail						
Variable Usage Charges	8.7	8.5	9.2	8.5	9.2	44.1
Traction Electricity Charges	13.1	14.0	15.1	14.0	18.8	75.0
Electrification Asset Usage Charges	0.8	0.8	1.0	0.9	1.2	4.7
Capacity Charges	10.4	10.7	11.2	10.4	10.4	53.1
Fixed Charges	102.4	94.7	95.7	154.5	243.5	690.8
Station Facility Charge	0.6	0.8	-	0.8	0.8	3.0
Station Long Term Charges	17.6	15.8	1.8	16.6	17.0	68.8
Station QX	3.8	0.8	3.7	3.7	3.8	15.8
Other Charges	7.0	6.7	0.3	7.2	6.8	28.0
Total income	**164.4**	**152.8**	**138.0**	**216.6**	**311.4**	**983.2**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Serco Sleeper						
Variable Usage Charges	-	0.8	0.6	0.6	0.5	2.5
Traction Electricity Charges	-	0.1	0.7	0.3	0.3	1.4
Electrification Asset Usage Charges	-	-	-	-	0.1	0.1
Capacity Charges	-	0.1	0.3	0.3	0.3	1.0
Fixed Charges	-	1.0	2.2	-	-	3.2
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	0.1	0.1
Station QX	-	-	0.1	0.1	0.1	0.3
Other Charges	-	-	-	-	-	-
Total income	**-**	**2.0**	**3.9**	**1.3**	**1.4**	**8.6**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Transpennine						
Variable Usage Charges	0.4	0.4	0.4	0.5	0.6	2.3
Traction Electricity Charges	-	-	-	0.9	1.1	2.0
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.1	0.5
Capacity Charges	0.4	0.3	0.5	0.6	0.6	2.4
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	0.1	-	-	-	0.1
Station QX	0.1	0.1	0.1	0.1	0.1	0.5
Other Charges	-	-	-	-	-	-
Total income	**1.0**	**1.0**	**1.1**	**2.2**	**2.5**	**7.8**

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Virgin West Coast						
Variable Usage Charges	3.1	2.7	3.0	2.8	2.5	14.1
Traction Electricity Charges	-	-	-	3.4	4.4	7.8
Electrification Asset Usage Charges	0.3	0.2	0.3	0.3	0.3	1.4
Capacity Charges	4.8	4.2	4.7	4.4	4.3	22.4
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	0.3	0.3	0.3	0.3	0.3	1.5
Station QX	0.4	0.4	0.4	0.4	0.5	2.1
Other Charges	-	-	-	-	-	-
Total income	**8.9**	**7.8**	**8.7**	**11.6**	**12.3**	**49.3**

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Consolidated Freight Operating Companies						
Variable Usage Charges	6.8	-	-	-	-	6.8
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	0.3	-	-	-	-	0.3
Fixed Charges	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Other Charges	1.9	-	-	-	-	1.9
Total Turnover	**9.0**	**-**	**-**	**-**	**-**	**9.0**

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

In £m 2018-19 prices unless stated

Notes:

(1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.

(2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.

(3) No PR13 comparison has been provided by the ORR for this schedule.

(4) Fixed Charges – there has been an increase in Fixed charges payable by ScotRail compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a.

(5) Changes in Freight income are discussed in more detail in Statement 6a.

(6) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases after 2014/15.

(7) During 2018/19 responsibility for the London North East rail franchise transferred from Virgin East Coast to London North Eastern Railway. As a result, income received from Virgin East Coast has dropped compared to 2017/18.

(8) During 2018/19, London North Eastern Railway was created to operate the London North East rail franchise whilst the government assessed franchising options for this route. Therefore, income is recognised for the first time against this operator in this year's Regulatory Financial Statements.

(9) In 2015/16 Serco Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	28	20	(8)	136	114	(22)	29
Signalling shift managers	2	1	(1)	10	5	(5)	1
Local operations managers	1	1	-	9	5	(4)	2
Controllers	4	3	(1)	15	13	(2)	3
Electrical control room operators	1	1	-	3	5	2	-
Total signaller expenditure	**36**	**26**	**(10)**	**173**	**142**	**(31)**	**35**
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	14	10	(4)	2
Managed stations	6	4	(2)	30	21	(9)	5
Performance	1	1	-	14	5	(9)	1
Customer relationship executives	-	1	1	1	4	3	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	6	6	-
Other	1	3	2	4	15	11	1
Operations delivery	(1)	-	1	(5)	-	5	(1)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	10	3	(7)	34	15	(19)	7
Other operating income	(3)	(3)	-	(16)	(9)	7	(5)
Total non-signaller expenditure	**17**	**12**	**(5)**	**76**	**67**	**(9)**	**10**
Total network operations expenditure	**53**	**38**	**(15)**	**249**	**209**	**(40)**	**45**
Support costs							
Core support costs							
Human resources	2	5	3	12	29	17	2
Information management	7	6	(1)	33	33	-	6
Government and corporate affairs	1	2	1	5	9	4	1
Group strategy	1	1	-	3	6	3	1
Finance	3	3	-	10	14	4	1
Business services	2	1	(1)	7	7	-	1
Accommodation	7	7	-	46	34	(12)	8
Utilities	6	4	(2)	26	23	(3)	6
Insurance	2	5	3	16	26	10	4
Legal and inquiry	1	1	-	5	3	(2)	-
Safety and sustainable development	2	1	(1)	11	4	(7)	2
Strategic sourcing	1	1	-	6	5	(1)	1
Business change	-	-	-	-	2	2	-
Other corporate functions	7	-	(7)	35	2	(33)	7
Core support costs	**42**	**37**	**(5)**	**215**	**197**	**(18)**	**40**
Other support costs							
Asset management services	4	6	2	20	32	12	3
Network Rail telecoms	5	3	(2)	23	20	(3)	4
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(3)	-	3	(13)	-	13	(3)
Commercial property	(1)	(1)	-	(2)	(2)	-	-
Group costs	(1)	-	1	(12)	(3)	9	(2)
Total other support costs	**4**	**8**	**4**	**15**	**48**	**33**	**2**
Total support costs	**46**	**45**	**(1)**	**230**	**245**	**15**	**42**
Traction electricity, industry costs and rates							
Traction electricity	25	32	7	110	134	24	21
Business rates	23	21	(2)	101	96	(5)	24
British transport police costs	9	7	(2)	50	38	(12)	10
RSSB costs	1	1	-	5	5	-	1
ORR licence fee and railway safety levy	2	2	-	9	9	-	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	1	-	-
Total traction electricity, industry costs and rates	**60**	**63**	**3**	**276**	**284**	**8**	**58**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**159**	**146**	**(13)**	**755**	**738**	**(17)**	**145**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is mainly due to higher signaller costs as savings assumed in the PR13 have not been realised. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are approximately 40 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. This year has also seen additional investment in staff welfare facilities and performance improvement initiatives to reduce delays across the network. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year which includes extra services delivered this year and an increase in the size and scope of the function to prepare for the challenges included in the regulator's recently published CP6. This includes the development of a larger System Operator team to support the industry.

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

In £m 2018-19 prices unless stated

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. This year, Support costs are slightly higher than the determination with movements across a number of areas as set out below. Support costs are higher than the previous year with marginal net increases across a number of activities.

(6) Human resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Group strategy – expenditure is lower than the determination expectation across the control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation.

(9) Finance – costs were lower than the determination across the control period. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in 2016/17.

(10) Accommodation – these property expenses are higher than the determination across the control period. This is mainly due to unforeseen costs connected with the relocation of the route head office. There is a slight reduction this year as a result of reduced corporate office costs.

(11) Utilities – costs are higher than the determination across the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

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

In £m 2018-19 prices unless stated

(12) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(13) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate to reduce risk and improve safety and operational performance.

(14) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are in line with the previous year.

(15) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors.

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

In £m 2018-19 prices unless stated

(16) Network Rail telecoms – costs for the year are higher than the determination which has resulted in higher costs across the control period as a whole. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination.

(17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(18) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination this control period mainly due to lower performance related payments to staff and re-organisation costs. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. There was also a notably savings from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements.

(19) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(20) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

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

In £m 2018-19 prices unless stated

(21) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final 2 years of the control period. Costs are broadly in line with the previous year following the Valuation Office Agency's revaluation exercise.

(22) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	27	30	28	28	28
MOMS	3	3	2	2	3
Control	4	3	3	3	5
Planning & Performance Staff Costs	5	4	2	2	2
Managed Stations Staff Costs	2	3	2	2	2
Operations Management Staff Costs	2	2	2	3	2
Other	6	9	9	5	11
Total operations & customer services costs	49	54	48	45	53
Total Network Operations	**49**	**54**	**48**	**45**	**53**
Support					
Human resources					
Functional support	1	1	1	2	2
Training (inc Westwood)	1	1	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	-	-	-
Other	-	-	1	-	-
Total human resources	3	3	2	2	2
Information management					
Support	-	-	-	-	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	7	7	5	5	6
Other	-	-	1	1	-
Total information management	7	7	6	6	7
Finance	3	2	1	1	3
Business Change	-	-	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	2	1	1	1
Planning & development	-	1	-	1	1
Safety & compliance	-	-	-	-	-
Other corporate services	2	2	3	2	2
Commercial property	11	11	7	9	6
Infrastructure Projects	(2)	(2)	(3)	(3)	(3)
Route Services	4	3	2	3	1
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	5	4	5	6	6
Network Rail Telecoms	5	6	3	4	5
Digital Railway	2	2	2	1	2
Safety Technical & Engineering	5	6	4	3	4
Government & Corporate Affairs	1	1	1	1	1
Business Services	1	1	2	1	2
Route Asset Management	1	1	2	2	4
Legal and inquiry	2	1	1	-	1
Group/central	-	-	-	-	-
Pensions	-	-	-	-	-
Insurance	5	6	(1)	4	2
Redundancy/reorganisation costs	2	1	1	1	1
Staff incentives/Bonus Reduction	(2)	(1)	-	(1)	-
Accommodation & Support Recharges	(3)	(2)	(3)	(3)	(3)
Commercial claims settlements	-	(1)	-	-	-
ORR financial penalty	(2)	-	-	-	-
Other	(1)	-	2	1	1
Total group/central costs	(1)	3	(1)	2	1
Total support	**50**	**54**	**38**	**42**	**46**
Total network operations and support costs	**99**	**108**	**86**	**87**	**99**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) Network Operations – costs are higher than the previous year. This includes extra investment in performance improvement initiatives this year to reduce passenger delays. Less other operating income was earned this year, including reduced income at Managed stations. There has also been additional investment in the System Operator function to develop capabilities ahead of the role it is required to play to support the industry in CP6.

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake to facilitate the core business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, with marginal increases across a number of functions which have been partly offset by cost reductions in other.

(5) Commercial property – There is a slight reduction this year as a result of reduced corporate office costs. Costs were higher earlier in the control period which included unforeseen costs caused by relocation of the route head office in Glasgow.

(6) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors.

(7) Route asset management – costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

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

In £m 2018-19 prices unless stated

(8) Group – Insurance – costs are lower than last year. This is mainly due to some benefits arising from the latest actuarial assessment of the liabilities Network Rail face in these areas, most notably the costs to third parties that network Rail Insurance Limited (a wholly-owned subsidiary of Network Rail) are expected to incur. As reported in previous years Regulatory financial statements there was a benefit arising from the year end actuarial review of liabilities in 2016/17 which accounts for the lower cost in that year. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result, premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high-profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result, the business case for procuring a lower level of insurance cover became more compelling. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury or damage caused by Network Rail's road fleet) which are now more expensive. In 2016/17, there was a significant benefit from the actuarial assessment of liabilities incurred by Network Rail under its insurance arrangements.

(9) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs in the last year of CP4. As part of this reorganisation initiative there were costs incurred in 2014/15 too. Since then, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least control period 6. Expenses in the current year are in line with the previous year and the general trend over the past few years.

(10) Group – staff incentives – in 2014/15 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in 2017/18 mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets was recognised in Group. In the current year there was also a benefit of reduced performance-related payments made to staff, although the reduction was less than that witnessed in 2017/18.

(11) Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15, after the conclusion of the control period, the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

Statement 7c: Insurance reconciliation, Scotland

In £m 2018-19 prices unless stated

A) Reconciliation of costs

Risk	Market based insurance: Underlying cost	Market based insurance: Claims paid	Market based insurance: Market premiums A	Self insurance: Underlying cost	Self insurance: Claims recognised by the captive B	Self insurance: Captive premiums	Total: Other C	Total: Total cost D
Property	0	0	0	1	0	1	0	0
Business interruption	0	0	0	1	0	0	0	0
Terrorism	0	0	0	0	0	0	0	0
Employer's liability	0	0	0	0	0	0	0	0
Public & products liability	0	0	0	0	0	2	0	0
Motor	0	0	0	0	0	0	0	0
Construction all risks	0	0	0	0	0	0	0	0
Other cover	0	0	0	0	0	0	0	0
Investment return	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**2**	**0**	**3**	**0**	**0**

Total insurance recognised in:

	Underlying cost	Claims paid	Market premiums A	Underlying cost	Claims recognised by the captive B	Captive premiums	Other C	Total cost D
Schedule 4 & 8	0	0	0	1	0	0	0	0
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	1	1	0	2	0	1
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	**0**	**0**	**1**	**2**	**0**	**2**	**0**	**1**

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2018-19	2017-18	2016-17	2015-16	2014-15	Cumulative
Operations	3	2	6	(5)	(3)	3
Investment revenues	0	0	0	0	0	0
Finance costs	0	0	0	0	0	0
Profit/(loss) before tax	**3**	**2**	**6**	**(5)**	**(3)**	**3**
Tax	0	0	0	0	0	0
Profit/(loss) attributable to shareholders	**3**	**2**	**6**	**(5)**	**(3)**	**3**

Statement 7c: Insurance reconciliation, Scotland – continued

In £m 2018-19 prices unless stated

Notes:

(1) Total insurance cost: A+B+C=D

(2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.

(3) Premiums include Insurance Premium Tax, the rate of which increased once again this year following legislative changes.

(4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.

(5) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

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

(2) This year Network Rail Insurance Limited has made a profit (unaudited) which benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives, and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. The profit (unaudited) made by Network Rail Insurance Limited is slightly higher than last year. A portion of the financial results of Network Rail Insurance Limited is allocated to the Scotland route.

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	28	0	0	28	20	0	0	20	(8)	0	0	(8)
Signalling shift managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Local operations managers	1	0	0	1	1	0	0	1	0	0	0	0
Controllers	4	0	0	4	3	0	0	3	(1)	0	0	(1)
Electrical control room operators	1	0	0	1	1	0	0	1	0	0	0	0
Total signaller expenditure	**36**	**0**	**0**	**36**	**26**	**0**	**0**	**26**	**(10)**	**0**	**0**	**(10)**
Non-signaller expenditure												
Mobile operations managers	4	(1)	0	3	2	0	0	2	(2)	1	0	(1)
Managed stations	6	0	0	6	4	0	0	4	(2)	0	0	(2)
Performance	1	0	0	1	1	0	0	1	0	0	0	0
Customer relationship executives	0	0	0	0	1	0	0	1	1	0	0	1
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	1	0	0	1	1	0	0	1
Other	1	0	0	1	3	0	0	3	2	0	0	2
Operations delivery	9	(10)	0	(1)	0	0	0	0	(9)	10	0	1
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	14	(4)	0	10	3	0	0	3	(11)	4	0	(7)
Other operating income	0	0	(3)	(3)	(1)	0	(2)	(3)	(1)	0	1	0
Total non-signaller expenditure	**35**	**(15)**	**(3)**	**17**	**14**	**0**	**(2)**	**12**	**(21)**	**15**	**1**	**(5)**
Total network operations expenditure	**71**	**(15)**	**(3)**	**53**	**40**	**0**	**(2)**	**38**	**(31)**	**15**	**1**	**(15)**

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

In £m 2018-19 prices unless stated

Actual spend in year

	2018-19				PR13				Difference to PR13			
	Gross costs	**Own costs capitalised**	**Other operating income**	**Net costs**	**Gross costs**	**Own costs capitalised**	**Other operating income**	**Net costs**	**Gross costs**	**Own costs capitalised**	**Other operating income**	**Net costs**
Support costs												
Core support costs												
Human resources	2	0	0	2	5	0	0	5	3	0	0	3
Information management	9	(2)	0	7	6	0	0	6	(3)	2	0	(1)
Government and corporate affairs	1	0	0	1	2	0	0	2	1	0	0	1
Group strategy	2	(1)	0	1	1	0	0	1	(1)	1	0	0
Finance	2	1	0	3	3	0	0	3	1	(1)	0	0
Business services	4	(1)	(1)	2	1	0	0	1	(3)	1	1	(1)
Accommodation	7	0	0	7	7	0	0	7	0	0	0	0
Utilities	7	0	(1)	6	4	0	0	4	(3)	0	1	(2)
Insurance	2	0	0	2	5	0	0	5	3	0	0	3
Legal and inquiry	1	0	0	1	1	0	0	1	0	0	0	0
Safety and sustainable development	3	(1)	0	2	1	0	0	1	(2)	1	0	(1)
Strategic sourcing	1	0	0	1	2	0	(1)	1	1	0	(1)	0
Business change	0	0	0	0	0	0	0	0	0	0	0	0
Other corporate functions	11	0	(4)	7	0	0	0	0	(11)	0	4	(7)
Core support costs	**52**	**(4)**	**(6)**	**42**	**38**	**0**	**(1)**	**37**	**(14)**	**4**	**5**	**(5)**
Other support costs												
Asset management services	9	(4)	(1)	4	9	0	(3)	6	0	4	(2)	2
Network Rail telecoms	7	(2)	0	5	3	0	0	3	(4)	2	0	(2)
National delivery service	0	0	0	0	4	0	(4)	0	4	0	(4)	0
Infrastructure projects	49	(50)	(2)	(3)	0	0	0	0	(49)	50	2	3
Commercial property	(2)	0	1	(1)	3	0	(4)	(1)	5	0	(5)	0
Group costs	(1)	0	0	(1)	1	0	(1)	0	2	0	(1)	1
Total other support costs	**62**	**(56)**	**(2)**	**4**	**20**	**0**	**(12)**	**8**	**(42)**	**56**	**(10)**	**4**
Total support costs	**114**	**(60)**	**(8)**	**46**	**58**	**0**	**(13)**	**45**	**(56)**	**60**	**(5)**	**(1)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	137	(1)	0	136	114	0	0	114	(23)	1	0	(22)
Signalling shift managers	10	0	0	10	5	0	0	5	(5)	0	0	(5)
Local operations managers	9	0	0	9	5	0	0	5	(4)	0	0	(4)
Controllers	19	(4)	0	15	13	0	0	13	(6)	4	0	(2)
Electrical control room operators	6	(3)	0	3	5	0	0	5	(1)	3	0	2
Total signaller expenditure	**181**	**(8)**	**0**	**173**	**142**	**0**	**0**	**142**	**(39)**	**8**	**0**	**(31)**
Non-signaller expenditure												
Mobile operations managers	15	(1)	0	14	10	0	0	10	(5)	1	0	(4)
Managed stations	31	(1)	0	30	21	0	0	21	(10)	1	0	(9)
Performance	14	0	0	14	5	0	0	5	(9)	0	0	(9)
Customer relationship executives	3	(2)	0	1	4	0	0	4	1	2	0	3
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	6	0	0	6	6	0	0	6
Other	4	0	0	4	15	0	0	15	11	0	0	11
Operations delivery	40	(45)	0	(5)	0	0	0	0	(40)	45	0	5
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	45	(11)	0	34	15	0	0	15	(30)	11	0	(19)
Other operating income	0	0	(16)	(16)	0	0	(9)	(9)	0	0	7	7
Total non-signaller expenditure	**152**	**(60)**	**(16)**	**76**	**76**	**0**	**(9)**	**67**	**(76)**	**60**	**7**	**(9)**
Total network operations expenditure	**333**	**(68)**	**(16)**	**249**	**218**	**0**	**(9)**	**209**	**(115)**	**68**	**7**	**(40)**

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

In £m 2018-19 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	15	(2)	(1)	12	30	0	(1)	29	15	2	0	17
Information management	44	(11)	0	33	35	0	(2)	33	(9)	11	(2)	0
Government and corporate affairs	5	0	0	5	9	0	0	9	4	0	0	4
Group strategy	8	(5)	0	3	6	0	0	6	(2)	5	0	3
Finance	9	1	0	10	14	0	0	14	5	(1)	0	4
Business services	11	(1)	(3)	7	7	0	0	7	(4)	1	3	0
Accommodation	46	0	0	46	34	0	0	34	(12)	0	0	(12)
Utilities	33	0	(7)	26	23	0	0	23	(10)	0	7	(3)
Insurance	16	0	0	16	26	0	0	26	10	0	0	10
Legal and inquiry	5	0	0	5	3	0	0	3	(2)	0	0	(2)
Safety and sustainable development	14	(3)	0	11	4	0	0	4	(10)	3	0	(7)
Strategic sourcing	6	0	0	6	12	0	(7)	5	6	0	(7)	(1)
Business change	0	0	0	0	2	0	0	2	2	0	0	2
Other corporate functions	55	0	(20)	35	2	0	0	2	(53)	0	20	(33)
Core support costs	**267**	**(21)**	**(31)**	**215**	**207**	**0**	**(10)**	**197**	**(60)**	**21**	**21**	**(18)**
Other support costs												
Asset management services	45	(21)	(4)	20	48	0	(16)	32	3	21	(12)	12
Network Rail telecoms	40	(13)	(4)	23	20	0	0	20	(20)	13	4	(3)
National delivery service	5	(1)	(4)	0	20	0	(19)	1	15	1	(15)	1
Infrastructure projects	197	(205)	(5)	(13)	0	0	0	0	(197)	205	5	13
Commercial property	3	(2)	(3)	(2)	16	0	(18)	(2)	13	2	(15)	0
Group costs	(3)	0	(9)	(12)	0	0	(3)	(3)	3	0	6	9
Total other support costs	**287**	**(242)**	**(29)**	**16**	**104**	**0**	**(56)**	**48**	**(183)**	**242**	**(27)**	**32**
Total support costs	**554**	**(263)**	**(60)**	**231**	**311**	**0**	**(66)**	**245**	**(243)**	**263**	**(6)**	**14**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.

(2) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) Network operations costs in 2018/19 are approximately 40 per cent higher than the regulator assumed. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. This year has also seen additional investment in staff welfare facilities and performance improvement initiatives to reduce delays across the network. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year which includes extra services delivered this year and an increase in the size and scope of the function to prepare for the challenges included in the regulator's recently published CP6. This includes the development of a larger System Operator team to support the industry.

(4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake to facilitate the core business. This year, Support costs are slightly higher than the determination with movements across a number of areas as set out below. Support costs are higher than the previous year with marginal net increases across a number of activities.

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

In £m 2018-19 prices unless stated

(5) Human resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(6) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(7) Group strategy – expenditure is lower than the determination expectation across the control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation.

(8) Finance – costs were lower than the determination across the control period. As noted in previous years' Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes to support this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in 2016/17.

(9) Accommodation – these property expenses are higher than the determination across the control period. This is mainly due to unforeseen costs connected with the relocation of the route head office. There is a slight reduction this year as a result of reduced corporate office costs.

(10) Utilities – costs are higher than the determination across the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

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

In £m 2018-19 prices unless stated

(11)Insurance - costs are favourable to the determination this year and the control period. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(12) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate to reduce risk and improve safety and operational performance.

(13)Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are in line with the previous year.

(14) Asset Management Services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors.

(15)Network Rail telecoms – costs for the year are higher than the determination which has resulted in higher costs across the control period as a whole. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination.

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

In £m 2018-19 prices unless stated

(16) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(17) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination this control period mainly due to lower performance related payments to staff and re-organisation costs. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. There was also a notably savings from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	**PR13**	**Difference**	**Actual**	**PR13**	**Difference**	**Actual**
Track	56	40	(16)	249	231	(18)	47
Signalling	18	15	(3)	91	79	(12)	19
Civils	26	26	-	114	133	19	25
Buildings	5	5	-	27	23	(4)	5
Electrical power and fixed plant	9	4	(5)	34	23	(11)	6
Telecoms	3	3	-	14	14	-	3
Other network operations	40	11	(29)	117	59	(58)	22
Asset management services	5	3	(2)	22	18	(4)	4
National Delivery Service	-	5	5	(4)	24	28	(1)
Property	-	-	-	2	2	-	-
Group	(2)	(2)	-	(10)	(10)	-	(2)
Total maintenance expenditure	**160**	**110**	**(50)**	**656**	**596**	**(60)**	**128**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6 and has invested in devegetation works to create a more reliable network. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination. In addition, there has been extra investment in devegetation works to improve train performance and help deliver a more reliable service for passengers.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Civils –Across the control period costs were lower than the determination expected, despite the higher asset inspection costs, mainly as a result of reduced Reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs are broadly in line with the previous year, with some increases in asset inspections ahead of the start of control period 6.

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

In £m 2018-19 prices unless stated

(5) Buildings – The vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. The level of resources anticipated, and potential efficiencies assumed in the regulator's control period 5 determination now appear over optimistic. Costs in the control period are higher than the regulator assumption reflecting extra investment in this area to help improve asset resilience and performance. The impact of the prolonged hot weather in summer 2018 had an adverse impact on asset condition that required rectification.

(7) Other network operations – costs for the current year are higher than the regulator's expectation continuing the trend of the earlier years of the control period. This is largely due to additional investment in performance improvement plans and safety enhancement schemes as well as a transfer of activity from some of the other headings in this statement reflecting changes in responsibilities between different parts of the organisation. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result of activity transferring additional investment in vegetation clearance, performance improvement initiatives and investment in front-line staff welfare facilities.

(8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral.

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

In £m 2018-19 prices unless stated

(9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Track	792	749	868	877	879
Signalling	341	349	352	359	362
Civils	-	-	-	-	0
Buildings	-	-	-	-	0
Electrical power and fixed plant	135	146	142	146	151
Telecoms	56	54	55	53	56
Other network operations	139	176	171	200	213
Asset management services	-	-	-	-	0
National delivery service	74	108	98	112	113
Property	-	-	-	-	0
Group	-	-	-	-	0
Other maintenance	-	-	-	-	0
Total network maintenance headcount	**1,537**	**1,582**	**1,686**	**1,747**	**1,774**

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

Notes:

(1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not directly comparable.

(2) This statement refers to the average heading during the year.

(3) This statement records the full-time equivalent staff rather than the total number of employees.

(4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. This includes increases in the number of staff required to maintain electric assets on the network. In addition, extra staff have been recruited as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Edinburgh	23	23	25	20	19	110
Glasgow	15	15	15	24	23	92
Motherwell	30	29	28	28	31	146
Perth	15	15	17	17	20	84
Centrally managed						
Structures examinations	13	15	15	15	17	75
Major items of maintenance plant	-	-	-	-	1	1
HQ managed activities	4	4	2	5	10	25
Other	17	24	25	19	39	124
Total network maintenance	**117**	**125**	**127**	**128**	**160**	**657**

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

In £m 2018-19 prices unless stated

Notes:

(1) These costs only include direct costs

(2) No PR13 comparison has been provided by the ORR for this schedule

(3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

(1) Overall, costs are higher than the previous year, reflecting increased civils inspections, increase in the level of electrified asset than require maintaining. A slight increase is expected as the network assets increase, and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.

(2) Total depots costs this year are higher than 2017/18 as the organisation increased resource and capability to respond to the regulator's output challenges for CP6.

(3) In 2017/18 the costs of Glasgow depot increased considerably compared to earlier years of the control period. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the costs attributed to the Edinburgh depot and the Other category which have been largely offset by increases in HQ Managed Activities. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.

(4) HQ managed activities – this year, the Scotland route reinvested some of the savings made in earlier years in the control period across the business to fund improvements in the network to help performance and put programmes in place to drive efficiencies in control period 6, notably vegetation management strategies.

(5) Other – the extra costs this year includes extra works undertaken in the Scotland route utilising the headroom in their funding as noted above such as increased leaf clearance teams, repairs at Ayr station, lineside clearance initiatives, Railway Heritage Trust activities and additional asset inspections.

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

	2014-15			2015-16			2016-17			2017-18			2018-19		
	Permanent	**Agency**	**Total**	**Permanent**	**Agency**	**Total**	**Permanent**	**Agency**	**Total**	**Permanent**	**Agency**	**Total**	**Permanent**	**Agency**	**Total**
Edinburgh	327	-	327	348	-	348	353	-	353	288	1	289	287	3	290
Glasgow	250	-	250	253	-	253	256	-	256	379	-	379	396	-	396
Motherwell	402	-	402	413	-	413	409	-	409	418	-	418	457	-	457
Perth	216	-	216	221	-	221	230	-	230	237	1	238	245	-	245
Centrally managed															
Route HQ	266	2	268	236	3	239	335	5	340	306	4	310	264	9	273
Other HQ	62	12	74	96	12	108	90	8	98	105	8	113	108	5	113
Total network maintenance	**1,523**	**14**	**1,537**	**1,567**	**15**	**1,582**	**1,673**	**13**	**1,686**	**1,733**	**14**	**1,747**	**1,757**	**17**	**1,774**

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

Notes:

(1) This statement refers to the average heading during the year.

(2) This statement records the full-time equivalent staff rather than the total number of employees.

(3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

(1) Maintenance headcount reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network and to increase capability and resource as the business prepares for the challenges of control period 6 and the additional investment in asset management that the regulator expects Network Rail to undertake.

(2) Total depots headcount has increased since the previous year. This is most noticeable in Motherwell depot where headcount has increased this year compared to earlier years which is largely due to increased resource to cover new overhead line electrification assets, improve resilience and grow off-track capability ahead of the control period 6 commencing.

(3) In 2017/18 headcount in the Glasgow depot increased compared to previous years. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the headcount in the Edinburgh depot. The impact of this reorganisation is also shown in Statement 8c, which shows the maintenance cost between these depots as staff transfer.

(4) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is more than offset by increases in the headcount within depots.

Statement 9a: Summary analysis of renewals expenditure, Scotland

In £m 2018-19 prices unless stated

	Actual	2018-19 PR13	Difference	cumulative	Cumulative PR13	Difference	2017-18 Actual
Track	124	91	(33)	667	499	(168)	136
Signalling	74	21	(53)	291	332	41	97
Civils	85	71	(14)	455	377	(78)	81
Buildings	25	13	(12)	70	75	5	7
Electrical power and fixed plant	23	9	(14)	65	59	(6)	14
Telecoms	8	5	(3)	48	51	3	6
Wheeled plant and machinery	8	6	(2)	37	62	25	7
Information Technology	11	8	(3)	58	45	(13)	7
Property	1	1	-	16	5	(11)	1
Other renewals	15	36	21	49	49	-	7
Total renewals expenditure	**374**	**261**	**(113)**	**1,756**	**1,554**	**(202)**	**363**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £200m higher than the determination which includes nearly £10m of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), nearly £300m of financial underperformance and approximately £100m of net deferral of activity. Investment is higher than the previous year with increases across most asset categories with the exception of Track and Signalling as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are higher than the regulator assumed this year due to a combination of net acceleration of activity and higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around sixty per cent of the levels assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years, especially High Output volumes and refurbishment works. Expenditure in the current year was lower than the previous year mainly due to reductions in workbank in the final year of the control period. Almost all categories, which the exception of fencing, witnessed a decrease in volumes.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Although costs where higher on a like-for-like basis signalling reliability has improved greatly during the control period as older assets are replaced by newer systems. Spend has been higher in the Minor works category which reflects additional investment undertaken by the route to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are lower than the previous year which is mainly due to lower investment is Polmadie and Rutherglen scheme as the project is now substantially complete.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was higher than the regulator anticipated, continuing the trend of the control period. This year higher underlying costs have been partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The exception is Structures other where the allowance included in the determination has been used for projects elsewhere in the portfolio. The higher overall expenditure is due to the factors noted above as well as emergency repair works required in the wake of extreme weather damaging the network at Lamington viaduct and from beginning the control period with higher unit costs than assumed and higher underlying costs. Whilst the activity at Lamington was successfully managed, the costs restoring the network were considerable. This type of emergency repairs are usually more expensive due to the time critical nature of completing the works and restoring the network for passengers as quick as practical. Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend this year is slightly higher than the previous year, with lower Overbridges investment being more than offset by higher Earthworks costs.

(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of some of the activity deferred from earlier years of the control period. Major works this year were completed at Franchised stations to help prepare for control period 6 and improve facilities for passengers. These included improvements to car parks and major work on Aberdeen canopies. Despite the catch up in the current year, investment in the control period is lower than the regulator expected. The control period underspend is due to higher like-for-like expenditure more than offset by deferrals, especially at Managed stations. The higher like-for-like costs during the control period and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably higher than the previous year mainly due to the aforementioned Franchised stations works undertaken this year.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year which more than offset the underspends experienced in earlier years of the control period. The additional costs across the control period largely reflect the additional like-for-like costs of delivering projects in control period 5. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects to deliver the necessary outputs, which has been exacerbated by discovery of asbestos at certain sites. In addition, extra investment has taken place in Fixed plant to improve resilience and improve train performance, such as additional signaller feeder works near Lockerbie and improvements in Forth Bridge lighting. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is close the regulatory assumption with higher Non-route capital expenditure (reflecting the position across the network as a whole) being largely offset by savings in Operational communication assets. Expenditure in the current year is in line with 20171/8 levels if investment.

(8) Wheeled plant and machinery – expenditure in the year was slightly higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits but would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

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

In £m 2018-19 prices unless stated

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs in the current year are broadly similar to the regulatory expectation. Across the control period costs have been higher than the regulator assumed. As noted in previous Regulatory financial statements, these extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow, the route HQ has been forced to relocate following structural issues in the former premises which were identified after the determination was finalised and so there was no funding for these works in the PR13. This additional cost is included as financial underperformance (refer to Statement 5a). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (Refer to Statement 2a.

(11) Other renewals:

a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator’s determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail’s financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

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

In £m 2018-19 prices unless stated

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. Investment was broadly in line with 2017/18. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, although expenditure this year was similar to the regulatory assumption, spend over the control period as a whole was lower. This was largely due to delays in delivering the programme. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

d. Small plant – expenditure is the year was higher than the regulator's determination which more than offset slower pace of delivery in earlier years of the control period. In response to lower spend earlier in the control period, responsibility for identifying and delivering suitable schemes was devolved to the individual operational routes. The investment in the route this year included the purchase of Mobile Elevated (MEWPS) accelerated from future years to utilise available resources.

e. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

f. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

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

In £m 2018-19 prices unless stated

g. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, there is minimal investment in the current year as these projects are now complete.

h. Other – costs reported in the current year includes a share of the direct support costs to deliver the overall capital programme within the route. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, Scotland

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	51	42	(9)	272	220	(52)
High output renewal	16	10	(6)	81	32	(49)
Plain line refurbishment	12	6	(6)	65	32	(33)
S&C renewal	10	13	3	85	72	(13)
S&C refurbishment	7	4	(3)	25	19	(6)
Track non-volume	11	5	(6)	68	66	(2)
Off track	17	11	(6)	71	58	(13)
Total track	**124**	**91**	**(33)**	**667**	**499**	**(168)**
Signalling						
Full conventional resignalling	27	-	(27)	98	132	34
Modular resignalling	-	-	-	2	18	16
ERTMS resignalling	-	2	2	2	3	1
Partial conventional resignalling	19	8	(11)	90	78	(12)
Targeted component renewal	5	1	(4)	11	13	2
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	-	(2)	14	16	2
Level crossings	6	2	(4)	17	18	1
Minor works	14	4	(10)	49	31	(18)
Centrally managed costs	1	4	3	8	23	15
Other	-	-	-	-	-	-
Total signalling	**74**	**21**	**(53)**	**291**	**332**	**41**
Civils						
Underbridges	33	32	(1)	188	156	(32)
Overbridges	4	3	(1)	20	18	(2)
Bridgeguard 3	1	-	(1)	15	-	(15)
Major structures	3	7	4	38	38	-
Tunnels	2	2	-	13	10	(3)
Other assets	9	6	(3)	47	36	(11)
Structures other	1	6	5	8	35	27
Earthworks	32	15	(17)	126	84	(42)
Other	-	-	-	-	-	-
Total civils	**85**	**71**	**(14)**	**455**	**377**	**(78)**
Buildings						
Managed stations	1	2	1	2	11	9
Franchised stations	21	9	(12)	56	52	(4)
Light maint depots	2	1	(1)	8	6	(2)
Depot plant	-	-	-	-	2	2
Lineside buildings	1	1	-	4	1	(3)
MDU buildings	-	-	-	-	2	2
NDS depots	-	-	-	-	1	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**25**	**13**	**(12)**	**70**	**75**	**5**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	2	-	(2)	2	6	4
Overhead Line	4	1	(3)	8	7	(1)
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	2	-	(2)	5	6	1
Energy efficiency	-	1	1	1	3	2
System capability / capacity	-	-	-	-	-	-
Other electrical power	6	2	(4)	8	8	-
Fixed plant	9	5	(4)	41	29	(12)
Total electrical power and plant	**23**	**9**	**(14)**	**65**	**59**	**(6)**
Telecoms						
Operational communications	1	2	1	5	9	4
Network	1	1	-	7	9	2
SISS	2	1	(1)	6	6	-
Projects and other	1	1	-	17	20	3
Non-route capital expenditure	3	-	(3)	13	7	(6)
Total telecoms	**8**	**5**	**(3)**	**48**	**51**	**3**
Wheeled plant and machinery						
High output	2	-	(2)	12	14	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	-	3	3
Intervention	1	-	(1)	9	14	5
Materials delivery	1	-	(1)	5	1	(4)
On track plant	2	2	-	6	9	3
Seasonal	-	-	-	-	5	5
Locomotives	-	-	-	-	-	-
Fleet support plant	1	1	-	1	3	2
Road vehicles	1	2	1	3	12	9
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	**8**	**6**	**(2)**	**37**	**62**	**25**
Information Technology						
IM delivered renewals	11	7	(4)	55	40	(15)
Traffic management	-	1	1	3	5	2
Total information technology	**11**	**8**	**(3)**	**58**	**45**	**(13)**
Property						
MDUs/offices	1	-	(1)	12	2	(10)
Commercial estate	-	1	1	4	3	(1)
Corporate services	-	-	-	-	-	-
Total property	**1**	**1**	**-**	**16**	**5**	**(11)**
Other renewals						
Asset information strategy	3	1	(2)	18	20	2
Intelligent infrastructure	4	3	(1)	8	13	5
Faster isolations	2	2	-	4	9	5
LOWS	1	-	(1)	2	1	(1)
Small plant	9	1	(8)	12	6	(6)
Research and development	1	-	(1)	2	-	(2)
Phasing overlay	-	29	29	-	-	-
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	8	-	(8)
Other	(5)	-	5	(5)	-	5
West Coast	-	-	-	-	-	-
Total other renewals	**15**	**36**	**21**	**49**	**49**	**-**
Total renewals	**374**	**261**	**(113)**	**1,756**	**1,554**	**(202)**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. Expenditure in the control period is £200m higher than the determination which includes nearly £10m of projects assumed to be finished in the previous control period (and so not included in the CP5 determination), nearly £300m of financial underperformance and approximately £100m of net deferral of activity. Investment is higher than the previous year with increases across most asset categories with the exception of Track and Signalling as Network Rail seeks to utilise the funding available in control period 5. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are higher than the regulator assumed this year due to a combination of net acceleration of activity and higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around sixty per cent of the levels assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years, especially High Output volumes and refurbishment works. Expenditure in the current year was lower than the previous year mainly due to reductions in workbank in the final year of the control period. Almost all categories, which the exception of fencing, witnessed a decrease in volumes.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was markedly higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Although costs where higher on a like-for-like basis signalling reliability has improved greatly during the control period as older assets are replaced by newer systems. Spend has been higher in the Minor works category which reflects additional investment undertaken by the route to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are lower than the previous year which is mainly due to lower investment is Polmadie and Rutherglen scheme as the project is now substantially complete.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was higher than the regulator anticipated, continuing the trend of the control period. This year higher underlying costs have been partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The exception is Structures other where the allowance included in the determination has been used for projects elsewhere in the portfolio. The higher overall expenditure is due to the factors noted above as well as emergency repair works required in the wake of extreme weather damaging the network at Lamington viaduct and from beginning the control period with higher unit costs than assumed and higher underlying costs. Whilst the activity at Lamington was successfully managed, the costs restoring the network were considerable. This type of emergency repairs are usually more expensive due to the time critical nature of completing the works and restoring the network for passengers as quick as practical. Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend this year is slightly higher than the previous year, with lower Overbridges investment being more than offset by higher Earthworks costs.

(5) Buildings – expenditure in the year was higher than the regulator anticipated which included a catch up of some of the activity deferred from earlier years of the control period. Major works this year were completed at Franchised stations to help prepare for control period 6 and improve facilities for passengers. These included improvements to car parks and major work on Aberdeen canopies. Despite the catch up in the current year, investment in the control period is lower than the regulator expected. The control period underspend is due to higher like-for-like expenditure more than offset by deferrals, especially at Managed stations. The higher like-for-like costs during the control period and an inability to achieve the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is noticeably higher than the previous year mainly due to the aforementioned Franchised stations works undertaken this year.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year which more than offset the underspends experienced in earlier years of the control period. The additional costs across the control period largely reflect the additional like-for-like costs of delivering projects in control period 5. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects to deliver the necessary outputs, which has been exacerbated by discovery of asbestos at certain sites. In addition, extra investment has taken place in Fixed plant to improve resilience and improve train performance, such as additional signaller feeder works near Lockerbie and improvements in Forth Bridge lighting. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is close the regulatory assumption with higher Non-route capital expenditure (reflecting the position across the network as a whole) being largely offset by savings in Operational communication assets. Expenditure in the current year is in line with 20171/8 levels if investment.

(8) Wheeled plant and machinery – expenditure in the year was slightly higher than the regulator assumed, as some of the underspends experienced earlier in the control period were reversed, especially On track plant. Overall, investment in the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits but would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5). Expenditure is higher than the previous year due to higher On track plant investment this year as noted above.

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

In £m 2018-19 prices unless stated

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs in the current year are broadly similar to the regulatory expectation. Across the control period costs have been higher than the regulator assumed. As noted in previous Regulatory financial statements, these extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow, the route HQ has been forced to relocate following structural issues in the former premises which were identified after the determination was finalised and so there was no funding for these works in the PR13. This additional cost is included as financial underperformance (refer to Statement 5a). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (Refer to Statement 2a.

(11) Other renewals

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Therefore, expenditure was lower than the regulator assumed in earlier years of the control period. This underspend was partly mitigated by additional investment this year. The programme is still behind target and is now planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5). Expenditure this year was in line with the previous year.

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

In £m 2018-19 prices unless stated

b. Intelligent infrastructure – expenditure is higher than the regulator assumed this year, mitigating some of the underspends experienced in earlier years of the control period. This was expected, as some of the delays in the programme earlier in control period 5 necessitated a re-profiling of expenditure into later years. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. Investment was broadly in line with 2017/18. Most of the investment this year concentrated on data collection, management and analysis as well as improving preparedness for control period 6.

c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, although expenditure this year was similar to the regulatory assumption, spend over the control period as a whole was lower. This was largely due to delays in delivering the programme. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

d. Small plant – expenditure is the year was higher than the regulator's determination which more than offset slower pace of delivery in earlier years of the control period. In response to lower spend earlier in the control period, responsibility for identifying and delivering suitable schemes was devolved to the individual operational routes. The investment in the route this year included the purchase of Mobile Elevated (MEWPS) accelerated from future years to utilise available resources.

e. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). Costs are slightly higher than the previous year as investment increases in preparation for control period 6.

f. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

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

In £m 2018-19 prices unless stated

g. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, there is minimal investment in the current year as these projects are now complete.

h. Other – costs reported in the current year includes a share of the direct support costs to deliver the overall capital programme within the route. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 10: Other information, Scotland

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	17	25	8	117	136	19	15
Access charge supplement Income	(23)	(23)	-	(127)	(127)	-	(24)
Net (income)/cost	**(6)**	**2**	**8**	**(10)**	**9**	**19**	**(9)**
Schedule 8							
Performance element income	-	-	-	(3)	-	3	-
Performance element costs	30	-	(30)	59	2	(57)	22
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**30**	**-**	**(30)**	**56**	**2**	**(54)**	**22**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(11)	(8)	-
Proposed income/(expenditure) to be included in the CP6			
Business Rates	2	5	3
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	1
Reporters fees	-	(1)	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(9)**	**(5)**	**4**

Statement 10: Other information, Scotland – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are lower than the regulator expected. This is mainly due to savings made through efficient possession management. This has been partly offset by extra renewals work that require possessions being delivered this year compared to the regulatory expectation. Efficient management of possessions has resulted in financial outperformance being recognised this year (refer to Statement 5a). Fewer late changes to possessions and effective packaging of renewals and enhancement activity helped reduce the average cost of possessions. Costs in the control period are lower than the regulatory assumption. This is a combination of undertaking less renewals activity compounded by more effective use of possessions to generate efficiencies. Costs are slightly higher than the previous year which is mostly due to delivering extra work that required activity, notably Signalling works.

Statement 10: Other information, Scotland – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are much greater than the determination due to train performance falling significantly short of the regulator’s targets for this year. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low, but congestion has contributed to the average Delay Per Incident being high. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator’s targets for delay minutes tightening each year, meaning Network Rail must do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall level of disruption. Compensation payable under the Schedule 8 regime was higher than the regulator’s assumption in CP5 with most of the impact occurring in the final two years of the control period. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism) due to franchise issues. Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer service.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Traffic growth (both passenger and freight) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. The impact of the Volume incentive is partly offset by the well-publicised increases in Business Rates came into effect from April 2017.

Statement 11:

No Statement 11 is required for Scotland

Statement 12: Volume incentives, Scotland

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	2	0	34	33	2.5%	1.61	pence per passenger train mile
Passenger farebox (millions)	(2)	0	516	518	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	1	1	2.8%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(4)	(1)	1,123	1,325	4.2%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(7)**	**(2)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market.

	Passenger train miles	**Passenger farebox**	**Freight train miles**	**Freight gross tonne miles**	**Total**
2014/15	1	-	-	-	**1**
2015/16	1	-	-	-	**1**
2016/17	1	-	-	-	**1**
2017/18	1	-	(1)	-	**-**
2018/19	-	-	(1)	(1)	**(2)**
Total	**4**	**-**	**(2)**	**(1)**	**1**

Statement 12: Volume incentives, Scotland – continued

In £m 2018-19 prices unless stated

(2) Passenger train miles in the current year has been higher than the ORR's expectation. This has followed the trend of the earlier years of the control period as additional services have been provided in response to passenger demand.

(3) Passenger farebox in the year was slightly behind the target in the current year, reflecting growth in passenger numbers being lower than the regulatory assumption for the current year. Growth largely matched the regulatory target in the earlier years of the control period. Passenger farebox information is supplied by ORR.

(4) The determination assumed that growth during the control period would have been over 12 per cent. However, traffic levels have actually shrunk over the course of the control period. The deterioration in demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media in recent years has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail must work harder to retain market share rather than increase it as the volume incentive mechanism requires.

(5) Whilst there has been growth this year of 4 per cent, the slower growth in the earlier years of the control period compared to the regulatory expectation means that the targets have not been fully achieved by the end of the control period. The reasons noted in the above comment are the contributory factors to this position.

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	77	47	101	146	692	82	52	77	171	450
	High Output Renewal	km	28	14	35	63	556	34	20	64	78	821
	Plain line Refurbishment	km	72	11	16	126	127	105	16	27	226	119
	S&C Renewal/Refurbishment	point ends	94	13	28	177	158	89	15	22	150	147
	Track Drainage	lm	8,608	5	6	10,426	1	9,696	5	14	25,660	1
	Fencing	km	272	6	15	674	22	221	5	15	626	24
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	4	2	2	4	500	9	1	3	21	143
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**98**	**203**	**-**	**-**	**-**	**114**	**222**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	334	26	98	381	257	47	10	54	190	284
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	181	15	55	215	256	104	31	71	256	277
	Targeted Component Renewal	SEU	11	3	5	11	455	11	2	3	11	273
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	4	4	6	4	1,500	2	2	3	2	1,500
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**48**	**164**	**-**	**-**	**-**	**45**	**131**	**-**	**-**
Civils	Underbridges	m^2	22,545	28	61	46,815	1	22,176	29	70	59,763	1
	Overbridges (incl BG3)	m^2	1,143	3	9	1,956	5	308	3	5	361	14
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	790	1	4	1,121	4	351	1	6	4,351	1
	Culverts	m^2	92	1	1	191	5	219	1	3	849	4
	Footbridges	m^2	957	3	5	1,465	3	152	1	-	152	-
	Coastal & Estuarial Defences	m	210	-	-	210	-	246	1	1	246	4
	Retaining Walls	m^2	2,583	1	1	3,413	0	204	1	1	204	5
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	746	24	42	1,477	28	711	20	42	1,180	36
	EW Drainage	m	35,704	4	5	41,920	0	40,332	3	5	50,566	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**65**	**128**	**-**	**-**	**-**	**60**	**133**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	155	-	-	155	-	-	-	-	-	-
	Buildings (FS)	m^2	155	-	-	155	-	-	-	-	-	-
	Platforms (FS)	m^2	703	1	1	745	1	42	-	-	42	-
	Canopies (FS)	m^2	13,090	5	6	13,090	0	-	-	-	-	-
	Train sheds (FS)	m^2	1,350	2	3	2,700	1	-	-	-	-	-
	Footbridges (FS)	m^2	-	-	-	-	-	301	1	1	366	3
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	-	-	-	-	-
	Light Maintenance Depots	m^2	194	-	-	194	-	1,200	1	1	1,200	1
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**8**	**10**	**-**	**-**	**-**	**2**	**2**	**-**	**-**

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	8	-	-	8	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	26	2	5	67	75	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	50	1	6	125	48	57	1	3	80	38
	Signalling Supply Points	No.	1	1	4	2	2,000	2	-	2	3	667
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**4**	**15**	**-**	**-**	**-**	**1**	**5**	**-**	**-**
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	960	-	2	960	2	1,321	-	1	2,123	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	17	1	1	17	59
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	5	-	-	5	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**2**	**-**	**-**	**-**	**1**	**2**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - The unit cost high output has decreased in the year. This is because in 2017-18 there were some legacy costs for re-railing and re-sleeper work whilst in the current financial year all of the volumes were for re-ballasting. There has been a large increase in the unit cost in the off-track category. However there was only three projects across the two years which means that the sample size was so low it is not possible to do any meaningful analysis

(3) Signalling – Full conventional re-signalling unit costs reduced. This was exclusively driven by work at Motherwell North and Polmadie & Rutherglen. Both projects delivered minimal volumes in the year before and thus has led to the unit cost to reduce. Targeted component renewal unit costs increased. The jobs at Motherwell North, Carnoustie and Kilkerran in the year were more expensive than the ones at Yoker and Laurencekirk in the prior year.

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

In £m 2018-19 prices unless stated

(4) Civils – The unit rate has reduced in the retaining walls category. There has been a much higher proportion of repair work compared to replace work this year which drives down the unit cost. In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. In the overbridges category there has been a reduction in the unit cost. This has because in the current year there is a much lower proportion or replacement work compared to the prior year. Replacement work is much more expensive than repairing. In tunnels there has been an increase in the unit cost. Tunnels are bespoke items and there was only two projects in each year which means it is difficult to do any meaningful analysis.

(5) Electrical Power and Fixed Plant – There has been a large increase in the unit cost for signalling supply points. However, there was only one project in each year which due to the low sample size makes analysis between the two years difficult.

Statement 1: Summary regulatory financial performance, Anglia

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	377	380	(3)	2,067	2,063	4	420
Fixed Income	97	73	24	229	205	24	35
Variable Income	115	133	(18)	569	622	(53)	111
Other Single Till Income	335	105	230	675	476	199	86
Opex memorandum account	(6)	-	(6)	(7)	-	(7)	(1)
Total Income	**918**	**691**	**227**	**3,533**	**3,366**	**167**	**651**
Operating expenditure							
Network operations	61	41	(20)	278	224	(54)	58
Support costs	41	46	5	207	246	39	39
Traction electricity, industry costs and rates	80	96	16	380	424	44	73
Network maintenance	148	102	(46)	704	577	(127)	135
Schedule 4	45	20	(25)	156	107	(49)	35
Schedule 8	21	1	(20)	83	2	(81)	24
Total operating expenditure	**396**	**306**	**(90)**	**1,808**	**1,580**	**(228)**	**364**
Capital expenditure							
Renewals	318	210	(108)	1,302	1,173	(129)	213
PR13 enhancement expenditure	269	40	(229)	903	364	(539)	185
Non PR13 enhancement expenditure	30	-	(30)	102	-	(102)	58
Total capital expenditure	**617**	**250**	**(367)**	**2,307**	**1,537**	**(770)**	**456**
Other expenditure							
Financing costs	170	154	(16)	728	711	(17)	179
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	**170**	**154**	**(16)**	**728**	**711**	**(17)**	**179**
Total expenditure	**1,183**	**710**	**(473)**	**4,843**	**3,828**	**(1,015)**	**999**

Statement 1: Summary regulatory financial performance, Anglia – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income in the year was higher than the determination due to additional services provided on the Crossrail line for the first time this year. The extra income this year explains the higher income for the control period as a whole. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year as well as the aforementioned extra Crossrail-related revenue. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected. Losses recognised this year are higher than previous years as the industry growth has not matched the regulator's assumptions in the PR13 determination. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Support costs are lower than the determination this year, with the largest contribution arising from an actuarial reassessment of legacy insurance liabilities. Over the course of the control period there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake Network Rail's renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Electrification & fixed plant) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

Statement 1: Summary regulatory financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling, Civils and Electrification) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but the impact of higher Crossrail costs is the dominant factor. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure is higher than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with a higher recognition of costs on Crossrail reported this year. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network, notably investment in Gospel Oak to Barking electrification programme. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are higher than the determination expected due to higher levels of average debt in the year partly offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are higher than the regulatory target mainly due to the same factors. Costs are slightly lower than the previous year as higher levels of debt have been offset by lower interest costs. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - Regulatory financial position, Anglia

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**4,469**	**4,132**	**337**
Indexation to 2017-18 prices	550	508	42
Opening RAB for the year (2017-18 prices)	**5,019**	**4,640**	**379**
Indexation for the year	160	148	12
Opening RAB (2018-19 prices)	**5,179**	**4,788**	**391**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	286	210	76
PR13 enhancements	277	75	202
Non-PR13 enhancements	32	-	32
Total enhancements	309	75	234
Amortisation	(234)	(234)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**5,540**	**4,839**	**701**

RAB Regulatory financial position - cumulative, Anglia

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**4,347**	**4,628**	**4,774**	**4,978**	**5,179**	**4,347**
Adjustments for the actual capital expenditure outturn in CP4	125	-	-	-	-	125
Renewals	265	231	199	188	286	1,169
PR13 enhancements	99	122	231	189	277	918
Non-PR13 enhancements	6	6	(1)	59	32	102
Total enhancements	105	128	230	248	309	1,020
Amortisation	(214)	(213)	(225)	(235)	(234)	(1,121)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-	-
Closing RAB	**4,628**	**4,774**	**4,978**	**5,179**	**5,540**	**5,540**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional enhancement investment, notably on Crossrail and under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There is a significant contribution from Crossrail as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not assume for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Anglia

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**215**	**251**	**277**	**221**	**210**	**1,174**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	36	-	-	-	-	36
Capitalised financing on CP4 deferrals	1	1	2	2	2	8
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**252**	**252**	**279**	**223**	**212**	**1,218**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(52)	(92)	(159)	(99)	(13)	(415)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(9)	(15)	(19)	(49)
Adjustments for efficient overspend	80	92	110	91	119	492
Capitalised financing on efficient overspend	2	5	9	15	20	51
25% retention of efficient overspend	(20)	(23)	(28)	(23)	(30)	(124)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(4)	(5)	(13)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	4	1	(1)	2	11
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	(1)	(1)	1	(1)	(3)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**265**	**231**	**199**	**188**	**286**	**1,169**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(2)	(1)	1	2	1	1
Adjustment for 25% retention of efficient overspend	21	25	29	22	30	127
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	1	-	2	1	1	5
Total actual renewals expenditure (see statement 9)	**285**	**255**	**231**	**213**	**318**	**1,302**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**63**	**70**	**73**	**158**	**75**	**439**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	1	(1)	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	(1)	(10)	(30)	(34)	(75)
Capitalised financing on Baseline adjustments	-	-	-	(1)	(3)	(4)
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**64**	**68**	**63**	**127**	**38**	**360**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	35	44	154	19	185	437
Capitalised financing on acceleration / (deferrals) of expenditure	1	2	6	11	16	36
Adjustments for efficient overspend / (underspend)	-	-	-	-	(6)	(6)
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-	-
25% retention of efficient overspend / (underspend)	-	-	-	1	1	2
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	12	11	38	49	110
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(4)	(4)	(8)	(9)	(25)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1	3	5
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**99**	**122**	**231**	**189**	**277**	**918**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	7	6	(1)	58	31	101
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	(1)	(3)	(5)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	2	4	6
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**	**6**	**(1)**	**59**	**32**	**102**
Total enhancements (added to the RAB - see statement 2a)	**105**	**128**	**230**	**248**	**309**	**1,020**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(7)	(13)	(20)	(43)
Adjustment for 25% retention of efficient overspend	1	4	4	8	10	27
Other adjustments	2	-	-	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	29	132	230	107	(34)	464
Other adjustments	1	(1)	-	(1)	-	(1)
Total actual enhancement expenditure (see statement 3)	**137**	**261**	**457**	**349**	**265**	**1,469**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail’s investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Signalling projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

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

In £m 2018-19 prices unless stated

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail’s incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The “Hendy baseline” is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail’s enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).

(12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with a notable contribution from portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

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

In £m 2018-19 prices unless stated

(16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

(17) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Anglia

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	4	-	(4)	11	12	1
Stations - Access for All (AfA)	2	-	(2)	18	16	(2)
Development	5	(18)	(23)	15	17	2
Level crossing safety	11	4	(7)	31	32	1
Passenger journey improvement	-	-	-	2	2	-
The strategic rail freight network	48	39	(9)	90	103	13
Total funds	**70**	**25**	**(45)**	**167**	**182**	**15**
Committed projects						
Crossrail	130	-	(130)	571	3	(568)
IEP Programme	-	-	-	-	-	-
Thameslink	20	-	(20)	23	7	(16)
Total committed projects	**150**	**0**	**(150)**	**594**	**10**	**(584)**
Named schemes						
Ports and Airports						
Service Improvements in the Ely Area	-	-	-	1	1	-
Total Named Schemes	**0**	**0**	**0**	**1**	**1**	**-**
HLOS capacity metric schemes						
West Anglia main line capacity increase	29	18	(11)	82	88	6
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	(5)	(5)	4	5	1
Anglia traction power supply upgrade	19	4	(15)	47	50	3
Total HLOS capacity metric schemes	**48**	**17**	**(31)**	**133**	**143**	**10**
CP4 project rollovers						
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**-**	**-**	**-**	**-**	**-**	**-**
Other projects						
Seven day railway projects	-	-	-	6	6	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	(1)	(1)	1	1	-
Income generating property schemes	1	(1)	(2)	26	21	(5)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(25)	-	25
Total other projects	**1**	**(2)**	**(3)**	**8**	**28**	**20**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**269**	**40**	**(229)**	**903**	**364**	**(539)**
B) Investments not included in PR13						
Government sponsored schemes						
Crossrail	22	-	(22)	30	-	(30)
G001 Gospel O2B OLE (Non Cash)	-	-	-	40	-	(40)
Cambridge North Stn (Non Cash)	-	-	-	6	-	(6)
Other government sponsored schemes	8	-	(8)	19	-	(19)
Total Government sponsored schemes	**30**	**-**	**(30)**	**95**	**-**	**(95)**
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	**-**	**-**	**-**	**5**	**-**	**(5)**
Total Schemes promoted by third parties	**-**	**-**	**-**	**-**	**-**	**-**
Discretionary Investment	**-**	**-**	**-**	**2**	**-**	**(2)**
Total non PR13 enhancement expenditure	**30**	**-**	**(30)**	**102**	**-**	**(102)**
Total Network Rail funded enhancements (see Statement 1)	**299**	**40**	**(259)**	**1,005**	**364**	**(641)**
Third Party PAYG	**(34)**	**-**	**34**	**464**	**-**	**(464)**
Total enhancements (see statement 2b)	**265**	**40**	**(225)**	**1,469**	**364**	**(1,105)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £299m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£265m) add the PAYGO credit funded by third parties (£34m).

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

In £m 2018-19 prices unless stated

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline, reversing some of the underspends witnessed earlier in the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period is broadly consistent with the baseline. Most of the expenditure this year relates to works at Stanford le Hope Station.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. This year expenditure was largely undertaken at stations on the Western Anglia Main Line.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the control period is broadly in line with the Hendy baseline expectation. This included an adjustment to the 2018/19 baseline following decisions made by DfT.

d. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure across the control period is broadly in line with the Hendy plan. Expenditure this year was higher than in prior year as the plans made earlier in the control period came to fruition in 2018/19.

e. Passenger Journey Improvement - this fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure across the control period was consistent with the Hendy plan.

f. The Strategic Rail Freight Network - the fund should support sustainable rail transport for freight, thereby reducing the supply chain’s transport emissions and reducing road congestion. Although expenditure is higher than the baseline this year, it is lower across the control. Investment this year includes schemes includes major investment in the Ipswich to Felixstowe capacity project.

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

In £m 2018-19 prices unless stated

(6) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period in this category is higher the baseline mainly due to Crossrail programme. The notable variances between expenditure and the baseline are set out below:

a. Thameslink - the objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and the control period is higher than the baseline. This includes the impact of underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a). Most of the spend this year, and in the control period as a whole, was on the development of a new depot in Cambridge to house the rolling stock required to deliver the new services. The costs of delivering this bit of infrastructure have been higher than expected.

b. Crossrail - this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is noticeably higher than the regulator's determination in the year and control period. This is mainly due to the determination assumptions over which of Network Rail's operational routes the work would occur in. The amounts included for the Anglia route were minimal even though a large part of the programme is being delivered in East London and beyond. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

(7) PR13 funded schemes – named schemes – the only programme in this category is: Service improvements in the Ely area. This project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period is minimal as it has been agreed that the scheme will now be delivered in the next control period.

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

In £m 2018-19 prices unless stated

(8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline offsetting some of the lower investment experienced earlier in the control period. The following notable variances between expenditure and baselines are set out below:

a. West Anglia main line capacity increase – this project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure across the control period is lower than the Hendy baseline. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. This has resulted in some of the programme being deferred into CP6.

b. Bow Junction upgrade – this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is broadly in line with the Hendy baseline across the control period.

c. Anglia traction power supply upgrade – the aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure across the control period is lower than the Hendy baseline. This includes the recognition of financial outperformance (refer to Statement 5).

(9) Other projects – this heading captures various sundry enhancement projects. Across the control period, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is slightly higher than the ORR assumed mainly due to increased income-generating property scheme investment. Notable variances to the baseline include:

a. Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Although there was minimal investment this year, expenditure across the control period is higher with the regulator's target. The main investments were at Liverpool Street station and to improve the quality of the arches part of the property estate prior to divestment.

b. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).

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

In £m 2018-19 prices unless stated

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programmes this year relate to works to facilitate the wider Crossrail programme, with an offsetting adjustment in PAYGO due to a change in funding agreed with DfT and ORR. In addition, there are also costs relating to timetable publication delays. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5). Across the control period there have also been improvements to Gospel Oak to Barking overhead line electrification, a joint project undertaken by network Rail, DfT and Rail for London.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. PAYGO – as noted above, amounts recognised this year includes changes in the funding of parts of the Crossrail programme agreed with DfT and ORR which has resulted in a credit balance for this category in the current year. Other notable schemes in the control period include significant investment on Barking to Gospel Oak Electrification and the development of a new station at Cambridge North.

Statement 4: Net debt and financial ratios, Anglia

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**3,718**	**3,123**	**(595)**	**2,645**	**2,577**	**(68)**
Income						
Grant income	(377)	(380)	(3)	(1,947)	(1,946)	1
Fixed charges	(97)	(73)	24	(219)	(196)	23
Variable charges	(115)	(133)	(18)	(538)	(588)	(50)
Other single till income	(335)	(105)	230	(649)	(446)	203
Total income	**(924)**	**(691)**	**233**	**(3,353)**	**(3,176)**	**177**
Expenditure						
Network operations	61	41	(20)	263	210	(53)
Support costs	41	46	5	197	237	40
Traction electricity, industry costs and rates	80	96	16	356	403	47
Network maintenance	148	102	(46)	665	543	(122)
Schedule 4	45	20	(25)	148	101	(47)
Schedule 8	21	1	(20)	78	2	(76)
Renewals	318	210	(108)	1,230	1,106	(124)
PR13 enhancement	269	75	(194)	863	417	(446)
Non-PR13 enhancement	30	-	(30)	98	-	(98)
Total expenditure	**1,013**	**591**	**(422)**	**3,898**	**3,019**	**(879)**
Financing						
Interest expenditure on nominal debt - FIM covered	18	58	40	141	239	98
Interest expenditure on index linked debt - FIM covered	19	21	2	93	102	9
Expenditure on the FIM	20	35	15	117	162	45
Interest expenditure on government borrowing	78	-	(78)	195	-	(195)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(4)	(8)	(4)
Total interest costs	**134**	**112**	**(22)**	**542**	**495**	**(47)**
Accretion on index linked debt - FIM covered	36	42	6	154	216	62
Total financing costs	**170**	**154**	**(16)**	**696**	**711**	**15**
Corporation tax	-	-	**-**	-	-	**-**
Other	(171)	-	171	(80)	46	126
Movement in net debt	**88**	**54**	**(34)**	**1,161**	**600**	**(561)**
Closing net debt	**3,806**	**3,177**	**(629)**	**3,806**	**3,177**	**(629)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	PR13 2018-19
Adjusted interest cover ratio (AICR)	0.80	0.83	0.90	0.43	2.18	1.35
FFO/interest	2.95	2.94	2.65	2.27	3.92	3.45
Net debt/RAB (gearing)	68.8%	69.3%	70.8%	74.1%	68.8%	65.6%
FFO/debt	9.4%	9.0%	9.1%	7.5%	13.8%	12.1%
RCF/debt	6.1%	6.0%	6.0%	4.2%	10.3%	8.6%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.

(2) Network Rail's debt attributable to Anglia has increased by £0.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years. Despite the high levels of investment this year, the increase in net debt was less than in previous years in control period 5. This was primarily due to the receipts from the asset divestment programme generated this year.

(3) Net debt attributable to Anglia at 31 March 2019 is £0.6bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. These extra cash outflows have been partly mitigated by benefits from asset divestment proceeds recognised this year.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation which has been partly offset by lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(13) Other – is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. This ratio is favourable to the regulatory assumption in the current year. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was around 0.4, some way below the regulatory assumption. This variance is mainly due to higher Schedule 4, Schedule 8, Network operations and Maintenance costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The underlying ratio is in line with the previous year.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above. The underlying result for the year (after removing for the impact of the asset divestment) was around 2.1.

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

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend, and higher net performance regime costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator’s expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. Given the nature of Network Rail’s business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. In the current year, the result exceeded the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result to around 7 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and performance regime (Schedule 8 and Schedule 4) costs. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator’s expectation but also due to higher net operational costs throughout the control period and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The underlying ratio has declined slightly compared to the previous year mainly as a result of extra performance regime costs this year.

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

In £m nominal unless otherwise stated

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment. The underlying result for the year (after removing for the impact of the asset divestment) was around 4 per cent.

Statement 5a: Total financial performance, Anglia

In £m 2018-19 prices unless stated

					2018-19				
	Actual	**Adjusted PR13**	**Variance to adjusted PR13**	**Due to:**	**Variance not included in total financial performance**	**Variances in volume of work**	**Other adjustments to PR13**	**Final Variance**	**Financial out / (under) performance**
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	377	380	(3)		(3)	-	-	-	-
Fixed Income	97	73	24		24	-	-	-	-
Variable Income	63	68	(5)		-	-	-	(5)	(5)
Other Single Till Income	335	105	230		239	-	-	(9)	(9)
Opex memorandum account	(6)	-	(6)		(2)	-	-	(4)	(4)
Total Income	**866**	**626**	**240**		**258**	**-**	**-**	**(18)**	**(18)**
Expenditure									
Network operations	61	41	(20)		-	-	-	(20)	(20)
Support costs	41	46	5		-	-	-	5	5
Industry costs and rates	29	28	(1)		1	-	-	(2)	(2)
Traction electricity	(1)	2	3		-	-	-	3	3
Reporter's fees	-	1	1		1	-	-	-	-
Network maintenance	148	102	(46)		-	(3)	-	(43)	(43)
Schedule 4 costs	45	20	(25)		-	-	-	(25)	(25)
Schedule 8 costs	21	1	(20)		-	-	-	(20)	(20)
Renewals	318	210	(108)		-	14	-	(122)	(30)
PR13 Enhancements	269	40	(229)		-	(183)	-	(46)	(10)
Non PR13 Enhancements	30	-	(30)		-	(30)	-	-	-
Financing Costs	170	154	(16)		(16)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**1,131**	**645**	**(486)**		**(14)**	**(202)**	**-**	**(270)**	**(142)**
Total:			**(246)**		**244**	**(202)**	**-**	**(288)**	**(160)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(160)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(23)
Under-delivery of train performance requirements (CaSL)	(15)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(38)**
Total financial out / (under) performance to be recognised	**(198)**

Statement 5a: Total financial performance, Anglia - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	2,067	2,063	4		4	-	-	-	-
Fixed Income	229	205	24		24	-	-	-	-
Variable Income	333	343	(10)		-	-	-	(10)	(10)
Other Single Till Income	675	476	199		239	-	-	(40)	(40)
Opex memorandum account	(7)	-	(7)		(5)	-	-	(2)	(2)
Total Income	**3,297**	**3,087**	**210**		**262**	**-**	**-**	**(52)**	**(52)**
Expenditure									
Network operations	278	224	(54)		-	-	-	(54)	(54)
Support costs	207	246	39		4	-	-	35	35
Industry costs and rates	140	134	(6)		3	-	-	(9)	(9)
Traction electricity	3	9	6		-	-	-	6	6
Reporter's fees	1	2	1		-	-	-	1	1
Network maintenance	704	577	(127)		-	(7)	-	(120)	(120)
Schedule 4 costs	156	107	(49)		-	27	-	(76)	(76)
Schedule 8 costs	83	2	(81)		-	-	-	(81)	(81)
Renewals	1,302	1,173	(129)		2	364	-	(495)	(125)
PR13 Enhancements	903	364	(539)		-	(432)	-	(107)	(28)
Non PR13 Enhancements	102	-	(102)		-	(101)	-	(1)	(1)
Financing Costs	728	711	(17)		(17)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**4,607**	**3,549**	**(1,058)**		**(8)**	**(149)**	**-**	**(901)**	**(452)**
Total:			**(848)**		**254**	**(149)**	**-**	**(953)**	**(504)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(504)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(87)
Under-delivery of train performance requirements (CaSL)	(43)
Missed milestones for asset management - data quality	(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(4)
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(135)**
Total financial out / (under) performance to be recognised	**(639)**

Statement 5a: Total financial performance, Anglia - continued

In £m 2018-19 prices unless stated

	2018-19			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	(52)	(65)	13	(236)	(279)	43
Total variance not included in total financial performance:	**(52)**	**(65)**	**13**	**(236)**	**(279)**	**43**
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Property Divestment	239	-	239	239	-	239
Total variance not included in total financial performance:	**239**	**-**	**239**	**239**	**-**	**239**
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	-	-	-	2	-	2
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total financial performance:	**-**	**-**	**-**	**4**	**-**	**4**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	52	65	(13)	236	279	(43)
Total variance not included in total financial performance:	**52**	**65**	**(13)**	**236**	**279**	**(43)**
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	-	-	-	2	-	2
Total variance not included in total financial performance:	**-**	**-**	**-**	**2**	**-**	**2**

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – extra franchise income has been generated through Network Rail providing additional services to franchises on the Eastern section of the Crossrail line. In line with the regulator's FPM guidelines no financial outperformance is recognised for this.

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(3) Variable income – across the control period, Network Rail has run fewer trains than expected and so has achieved less Capacity charge income than the regulatory target. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The underperformance recognised in Other single till income this year is mainly the result of lower Property rental income, continuing the trend of the earlier years of the control period as well as the continued decline in freight traffic (largely driven by demand for coal transportation) and lower station income following the transfer of responsibility for certain stations to the c2c franchise operator on a long-term lease. This has been partly offset by extra Open access income, mostly from London Underground. The lower Property rental income has come from not meeting the targets in the determination which assumed that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. The issues experienced in the current year are the same drivers of the underperformance in the control. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slow freight growth owing structural changes in the industry, lower farebox income and slower than expected passenger growth have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(6) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by commercial claims as the control period closes out. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – once again, Support costs are lower than the determination, following the trend of earlier years of the control period when efficiencies were delivered. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

(10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(11) Schedule 4 costs – this year costs are greater than the regulator expected which is mainly due to higher like-for-like costs. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events, such as Storm Emma in 2017/18. Variances in Schedule 4 arising from differences in the volume of renewals undertaken are not included when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(12) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Performance this year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

(14) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme but is dominated by Crossrail in both the current year and across the control period. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. 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 this control period are higher than the regulator expected mainly due to higher average net debt levels compared to the assumption in the regulators' PR13 partly offset by lower interest rates (notably inflation which impacts accreting debt). This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Anglia – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2018/19, continuing the trend of earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(60)	(20)	(40)	(10)		(10)	-	-
Signalling	(18)	26	(44)	(11)		(10)	(1)	-
Civils	(12)	8	(20)	(5)		(5)	-	-
Buildings	7	11	(4)	(1)		(1)	-	-
Electrical power and fixed plant	(50)	(34)	(16)	(4)		(3)	(1)	-
Telecoms	4	4	-	-		-	-	-
Wheeled plant and machinery	1	1	-	-		-	-	-
IT	(2)	(2)	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	20	18	2	1		1	-	-
Total	**(108)**	**14**	**(122)**	**(30)**		**(28)**	**(2)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(139)	57	(196)	(49)		(46)	(3)	-
Signalling	70	162	(92)	(23)		(23)	-	-
Civils	(29)	55	(84)	(21)		(22)	1	-
Buildings	9	33	(24)	(6)		(6)	-	-
Electrical power and fixed plant	(7)	53	(60)	(15)		(10)	(5)	-
Telecoms	(3)	(3)	-	-		-	-	-
Wheeled plant and machinery	22	22	-	-		-	-	-
IT	(12)	(12)	-	-		-	-	-
Property	13	13	-	-		-	-	-
Other renewals	(53)	(14)	(39)	(11)		(8)	(3)	-
Total	**(129)**	**366**	**(495)**	**(125)**		**(115)**	**(10)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year some of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions, particularly on the Crossrail programme which is of significant strategic importance for the industry as a whole. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty.

(6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA, programme elongation, which has been exacerbated by priority for plant being given to support other programmes, and increases in the programme scope. Extra volumes have been required on certain projects which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

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

In £m 2018-19 prices unless stated

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewal's categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification). The underperformance recognised in the control period includes notable contributions from Great Eastern Overhead Line Electrification project and FTN. The current year benefits from some savings on the Great Eastern Overhead Line Electrification project which partially offsets the underperformance recognised in earlier years of the control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(20)	(16)	-	(4)	(1)
Crossrail	(130)	(86)	-	(44)	(8)
Seven day railway	-	-	-	-	-
Anglia Traction power supply upgrade	(15)	(23)	-	8	2
T12 Enhancements	(5)	-	-	(5)	(1)
Stations - Access for All (AfA)	(2)	1	-	(3)	(3)
Other Enhancements	(87)	(89)	-	2	1
Total	**(259)**	**(213)**	**-**	**(46)**	**(10)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(16)	(12)	-	(4)	(1)
Crossrail	(568)	(464)	-	(104)	(26)
Seven day railway	-	-	-	-	-
Anglia Traction power supply upgrade	3	(11)	-	14	4
T12 Enhancements	(5)	-	-	(5)	(1)
Stations - Access for All (AfA)	(2)	1	-	(3)	(3)
Other Enhancements	(53)	(47)	-	(6)	(2)
Total	**(641)**	**(533)**	**-**	**(108)**	**(29)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is mainly due to higher costs of delivering depot facilities required to house the rolling stock required to deliver the extra services that the Thameslink programme provides passengers. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.

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

In £m 2018-19 prices unless stated

(2) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details and unforeseen energy interoperability rules. Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

(3) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this control period following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the works. The programme has also benefitted from efficient possession management and cooperation with power grid managers to integrate the new infrastructure to power supply points.

(4) T-12 enhancements - this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

(5) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements. In addition, minor financial performance variances are captured through this heading. The main items relating to Anglia this control prior relates to extra investment in a new station at Cambridge North to offer additional travel opportunities for passengers in that region.

Statement 5d: Total financial performance - REBS performance, Anglia

In £m 2018-19 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2018-19			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	119	100	19	-	-	-	19
Capacity charge	140	146	(6)	-	-	-	(6)
Electricity asset utilisation charge	16	16	-	-	-	-	-
Property income	269	255	14	-	-	-	14
Expenditure							
Network operations	278	213	(65)	-	-	-	(65)
Support costs	207	253	46	-	2	-	44
RSSB and BT Police	48	39	(9)	-	-	-	(9)
Network maintenance	704	605	(99)	9	-	-	(108)
Schedule 4 costs	156	118	(38)	38	-	-	(76)
Schedule 8 costs	83	-	(83)	-	-	-	(83)
Renewals	1,302	1,175	(127)	368	-	(370)	(125)
Total REBS performance			**(348)**	**415**	**2**	**(370)**	**(395)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(87)
Under-delivery of train performance requirements (CaSL)	(43)
Missed milestones for asset management - data quality	(1)
Missed ORBIS milestones	(4)
Total adjustment for under delivery of outputs and reduced sustainability	**(135)**
Cumulative performance to end of 2018-19	**(530)**
Less cumulative outperformance recognised up to the end of 2017-18	(365)
Net REBS performance for 2018-19	**(165)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**377**	**380**	**(3)**	**2,067**	**2,063**	**4**	**420**
Franchised track access income							
Fixed charges	**97**	**73**	**24**	**229**	**205**	**24**	**35**
Variable charges							
Variable usage charge	15	16	(1)	75	76	(1)	15
Traction electricity charges	52	65	(13)	236	279	(43)	45
Electrification asset usage charge	3	3	-	16	16	-	3
Capacity charge	27	31	(4)	133	142	(9)	27
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	18	18	-	109	109	-	21
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**115**	**133**	**(18)**	**569**	**622**	**(53)**	**111**
Total franchised track access income	**212**	**206**	**6**	**798**	**827**	**(29)**	**146**
Total franchised track access and grant income	**589**	**586**	**3**	**2,865**	**2,890**	**(25)**	**566**
Other single till income							
Property income	302	69	233	515	307	208	53
Freight income	7	10	(3)	35	40	(5)	7
Open access income	7	2	5	30	13	17	7
Stations income	10	14	(4)	54	69	(15)	9
Facility and financing charges	2	4	(2)	8	15	(7)	2
Depots Income	7	6	1	33	30	3	8
Other income	-	-	-	-	2	(2)	-
Total other single till income	**335**	**105**	**230**	**675**	**476**	**199**	**86**
Total income	**924**	**691**	**233**	**3,540**	**3,366**	**174**	**652**

Statement 6a: Analysis of income, Anglia – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity), lower stations income arising from transfer of responsibility to the franchise operator (offset by cost savings), lower property rental income (due to not achieving growth expected by the regulator and lower freight income (as a result of structural declines in the coal transportation market) which has partly offset by extra revenue earned from offering services on the Crossrail line. Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail’s commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the items noted above, namely lower traction electricity income, freight revenue, lower stations income which has partly been offset by additional income from offering additional services to operators. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with the largest contribution from the additional income earned from offering services on the Crossrail line this year.

Statement 6a: Analysis of income, Anglia – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was higher than the determination this year. This year was also the first ever that additional income was earned from the operations commencing on the Eastern section of the Crossrail line. This gain has been partly offset by differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges for the control period are higher than the regulator expected mainly due to the extra revenue earned this from services on the Crossrail line. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income. This has been augmented by the extra income earned from providing services on the Crossrail line this year.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, Anglia – continued

In £m 2018-19 prices unless stated

(6) Capacity charge – in the current year this is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2018/19 which necessitated extra disruptive possessions and also partly because increases in traffic assumed by the regulator in the determination over the past two years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. The lower income this year continues the pattern of lower income experienced across the control period as the growth in services has been less than the regulator assumed. Income is consistent with the previous year.

(7) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was lower than the previous year, which was in line with the regulator's assumption.

(8) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Anglia route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income has been lower than the determination target this year with additional property sales partly mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is lower than the regulator assumed as lower property rental income has been partly offset by extra revenue from property disposals. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved this year.

Statement 6a: Analysis of income, Anglia – continued

In £m 2018-19 prices unless stated

(9) Freight Income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has significantly decreased this control period. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. The lower electricity income is a factor of market prices and is offset by savings in the electricity costs Network Rail has to pay to provides (as reported in Statement 7a). Income is consistent with the previous year.

(10) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target in both the current year and the control period, notably services provided to London Underground. Income is consistent with the previous year.

(11) Stations income – revenue earned this year is lower than the regulator expected. This is a result of stations associated with the c2c franchise passing to the operator earlier in the control period. This reduces Network Rail's income but also running costs. In the control period. The variance in the control period as a whole is due to the same factor. Income is broadly consistent with the previous year.

(12) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this year and in the control period due to lower Facility fees. This is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole. Income is consistent with the previous year.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	47	66	(19)	231	288	(57)	48
Property sales	255	6	249	284	34	250	5
Adjustment for commercial opex	-	(3)	3	-	(15)	15	-
Total property income	**302**	**69**	**233**	**515**	**307**	**208**	**53**
Freight income							
Freight variable usage charge	5	5	-	27	24	3	5
Freight traction electricity charges	1	2	(1)	5	7	(2)	1
Freight electrification asset usage charge	-	-	-	-	1	(1)	-
Freight capacity charge	1	1	-	3	4	(1)	1
Freight only line charge	-	1	(1)	-	2	(2)	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	**7**	**10**	**(3)**	**35**	**40**	**(5)**	**7**
Open access income							
Variable usage charge income	4	-	4	17	-	17	4
Open access capacity charge	1	-	1	4	-	4	1
Open access traction electricity charges	-	-	-	-	2	(2)	-
Fixed contractual contribution	2	2	-	9	11	(2)	2
Open access other income	-	-	-	-	-	-	-
Total open access income	**7**	**2**	**5**	**30**	**13**	**17**	**7**
Stations income							
Managed stations income							
Long term charge	4	5	(1)	20	23	(3)	4
Qualifying expenditure	3	4	(1)	18	17	1	3
Total managed stations income	7	9	(2)	38	40	(2)	7
Franchised stations income							
Long term charge	3	4	(1)	15	23	(8)	2
Stations lease income	-	1	(1)	1	6	(5)	-
Total franchised stations income	3	5	(2)	16	29	(13)	2
Total stations income	**10**	**14**	**(4)**	**54**	**69**	**(15)**	**9**
Facility and financing charges							
Facility charges	2	4	(2)	8	15	(7)	2
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**2**	**4**	**(2)**	**8**	**15**	**(7)**	**2**
Depots income	**7**	**6**	**1**	**33**	**30**	**3**	**8**
Other	**-**	**-**	**-**	**-**	**2**	**(2)**	**-**
Total other single till income	**335**	**105**	**230**	**675**	**476**	**199**	**86**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	28	21	(7)	131	117	(14)	26
Signalling shift managers	3	1	(2)	13	8	(5)	3
Local operations managers	2	2	-	12	8	(4)	3
Controllers	4	3	(1)	20	17	(3)	4
Electrical control room operators	2	1	(1)	7	6	(1)	1
Total signaller expenditure	**39**	**28**	**(11)**	**183**	**156**	**(27)**	**37**
Non-signaller expenditure							
Mobile operations managers	6	3	(3)	30	17	(13)	7
Managed stations	4	4	-	20	20	-	4
Performance	3	1	(2)	13	7	(6)	2
Customer relationship executives	2	1	(1)	5	3	(2)	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	10	10	-
Other	3	1	(2)	28	7	(21)	4
Operations delivery	5	-	(5)	24	-	(24)	4
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	5	3	(2)	10	15	5	4
Other operating income	(6)	(2)	4	(35)	(11)	24	(5)
Total non-signaller expenditure	**22**	**13**	**(9)**	**95**	**68**	**(27)**	**21**
Total network operations expenditure	**61**	**41**	**(20)**	**278**	**224**	**(54)**	**58**
Support costs							
Core support costs							
Human resources	2	5	3	14	29	15	1
Information management	6	6	-	31	33	2	6
Government and corporate affairs	1	2	1	5	9	4	1
Group strategy	1	1	-	5	6	1	1
Finance	2	3	1	11	14	3	2
Business services	2	1	(1)	8	5	(3)	2
Accommodation	8	12	4	54	62	8	10
Utilities	5	4	(1)	20	21	1	3
Insurance	2	3	1	13	24	11	4
Legal and inquiry	1	1	-	5	3	(2)	-
Safety and sustainable development	2	1	(1)	10	4	(6)	2
Strategic sourcing	2	1	(1)	6	5	(1)	1
Business change	-	-	-	2	2	-	-
Other corporate functions	1	-	(1)	10	2	(8)	2
Core support costs	**35**	**40**	**5**	**194**	**219**	**25**	**35**
Other support costs							
Asset management services	3	4	1	16	15	(1)	3
Network Rail telecoms	4	3	(1)	21	18	(3)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(11)	-	11	(2)
Commercial property	3	(1)	(4)	1	(4)	(5)	2
Group costs	(2)	-	2	(14)	(3)	11	(2)
Total other support costs	**6**	**6**	**-**	**13**	**27**	**14**	**4**
Total support costs	**41**	**46**	**5**	**207**	**246**	**39**	**39**
Traction electricity, industry costs and rates							
Traction electricity	51	67	16	239	288	49	43
Business rates	18	19	1	81	85	4	19
British transport police costs	8	6	(2)	43	35	(8)	7
RSSB costs	1	1	-	5	4	(1)	1
ORR licence fee and railway safety levy	2	2	-	9	9	-	2
Reporters fees	-	1	1	1	2	1	-
Other industry costs	-	-	-	2	1	(1)	1
Total traction electricity, industry costs and rates	**80**	**96**	**16**	**380**	**424**	**44**	**73**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**182**	**183**	**1**	**865**	**894**	**29**	**170**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are in line with the determination assumption this year. Higher signaller costs have been offset by lower Traction electricity costs and Support costs savings. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are favourable to the regulatory target with a notably contribution from Insurance expenses. Over the course of the control period there have substantial savings well in excess of the regulator's targets.

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

In £m 2018-19 prices unless stated

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(9) Accommodation – these property expenses were lower than the determination this year and across the control period. Savings were due to Network Rail utilising a cheaper property portfolio than the regulator assumed when it set the determination. There have been savings as a result of the route office relocating from central London whilst there have been savings in the corporate office estate, primarily from relocation of functions away from London to, for example, Milton Keynes.

(10) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

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

In £m 2018-19 prices unless stated

(11) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

(12) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

(13)Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(14)Commercial Property – net costs is the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. Net costs in the current year are broadly in line with the previous year.

(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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. The credit recognised in Group this year is in line with the previous year.

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

In £m 2018-19 prices unless stated

(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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator’s assumption in the current year and control period mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(17) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(18) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency’s revaluation exercise.

(19) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	29	28	28	29	31
MOMS	6	5	5	6	6
Control	5	6	6	6	5
Planning & Performance Staff Costs	5	4	4	5	5
Managed Stations Staff Costs	1	1	0	1	1
Operations Management Staff Costs	1	1	1	1	2
Other	6	8	9	10	11
Total operations & customer services costs	53	53	53	58	61
Total Network Operations	**53**	**53**	**53**	**58**	**61**
Support					
Human resources					
Functional support	2	2	2	1	2
Training (inc Westwood)	1	1	0	0	0
Graduates	0	0	0	0	0
Apprenticeships	1	1	0	0	0
Other	1	0	0	0	0
Total human resources	5	4	2	1	2
Information management					
Support	1	1	1	1	1
Projects	0	0	0	0	0
Licences	0	0	0	0	0
Business operations	5	6	5	5	5
Other	0	0	0	0	0
Total information management	6	7	6	6	6
Finance	2	2	3	2	2
Business Change	1	1	0	0	0
Contracts & Procurement	0	0	0	0	0
Strategic Sourcing (National Supply Chain)	1	1	1	1	2
Planning & development	1	1	1	1	1
Safety & compliance	0	0	0	0	0
Other corporate services	1	2	3	2	2
Commercial property	13	9	11	11	11
Infrastructure Projects	(2)	(3)	(2)	(2)	(2)
Route Services	2	1	1	2	2
Central Route Services (inc National Supply Chain)	0	0	0	0	0
Asset management & Engineering/Asset heads	0	0	0	0	0
National delivery service	0	0	0	0	0
Private party	0	0	0	0	0
Utilities	4	4	4	3	5
Network Rail Telecoms	6	4	4	3	4
Digital Railway	2	2	1	1	1
Safety Technical & Engineering	4	6	1	4	4
Government & Corporate Affairs	1	1	1	1	1
Business Services	1	0	3	2	2
Route Asset Management	(2)	0	(2)	(1)	(3)
Legal and inquiry	1	2	1	0	1
Group/central					
Pensions	0	0	0	0	0
Insurance	3	5	(1)	4	2
Redundancy/reorganisation costs	2	1	1	1	1
Staff incentives/Bonus Reduction	(2)	(1)	0	(1)	0
Accommodation & Support Recharges	(3)	(3)	(3)	(2)	(2)
Commercial claims settlements	0	(1)	0	0	0
ORR financial penalty	(2)	0	0	0	0
Other	0	1	0	0	(1)
Total group/central costs	(2)	2	(3)	2	0
Total support	**45**	**46**	**36**	**39**	**41**
Total network operations and support costs	**98**	**99**	**89**	**97**	**102**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	75	37	(38)	347	209	(138)	70
Signalling	25	18	(7)	121	98	(23)	25
Civils	17	12	(5)	76	63	(13)	14
Buildings	-	4	4	4	22	18	-
Electrical power and fixed plant	14	10	(4)	68	59	(9)	13
Telecoms	2	2	-	11	11	-	2
Other network operations	13	14	1	64	81	17	9
Asset management services	3	3	-	18	18	-	3
National Delivery Service	-	4	4	(4)	23	27	(1)
Property	1	-	(1)	9	2	(7)	2
Group	(2)	(2)	-	(10)	(9)	1	(2)
Total maintenance expenditure	**148**	**102**	**(46)**	**704**	**577**	**(127)**	**135**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works, and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6 and extra reactive maintenance works.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspection and reactive maintenance expenditure. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulators control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are higher than the previous year reflecting higher reactive maintenance activity required this year.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is lower than the regulator assumed, following the trend of the earlier years of the control period. This is mainly due to a transfer of responsibility for some of the stations in the Anglia route transferring from network Rail to the operator. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed continuing the trend of the earlier years of the control period. This mainly arises from difficulties achieving the challenging efficiencies included in the determination.

(7) Other network operations – costs for the current year are in line with the regulator's expectation but lower across the control period at a whole, largely due to a transfer of responsibilities (and so costs) from Other network operations into the track category. This provides greater understanding of underlying costs and provide greater accountability to the front-line management teams.

(8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

(9) Property – expenses across the control period are higher than the determination, with the overspend spread relatively evenly across the control period. The assumptions included in the determination on the level of maintenance works across the offices and commercial estate portfolio has proved too optimistic. This situation was exacerbated by lower Property-related renewals taking place over the course of the control period (as set out in Statement 9a).

(10) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, Anglia

In £m 2018-19 prices unless stated

	Actual	2018-19 PR13	Difference	cumulative	Cumulative PR13	Difference	2017-18 Actual
Track	108	48	(60)	456	317	(139)	78
Signalling	65	47	(18)	206	276	70	37
Civils	24	12	(12)	147	118	(29)	22
Buildings	8	15	7	46	55	9	10
Electrical power and fixed plant	78	28	(50)	213	206	(7)	30
Telecoms	5	9	4	34	31	(3)	4
Wheeled plant and machinery	6	7	1	36	58	22	5
Information Technology	10	8	(2)	54	42	(12)	7
Property	2	4	2	9	22	13	2
Other renewals	12	32	20	101	48	(53)	18
Total renewals expenditure	**318**	**210**	**(108)**	**1,302**	**1,173**	**(129)**	**213**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected. The extra spend this year is the catalyst for the higher investment in the control period as a whole. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are higher than the regulator assumed due to a combination of accelerations of activity and higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around three-quarters of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are lower than the regulatory assumption across all categories, with major contributions from High Output, Switches & Crossings and Switches & Crossings refurbishment. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings but also in High Output where productivity improvements helped reduce average unit costs. This year also saw increases arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals, notably Colchester re-control scheme. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are much higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. Investment in Crossrail facilitating schemes and Norwich to Yarmouth and Lowestoft programmes have been much higher this year.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was higher than the regulator anticipated continuing the pattern of earlier years of the control period. This year higher underlying costs have been partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is in line with the previous year, with lower Overbridges investment being offset by higher Earthworks costs.

(5) Buildings – expenditure in the year was lower than the regulator anticipated with over half of the saving due to a reduced Franchised station estate. Responsibility for renewing certain stations has moved to the train operator earlier in the control period which has resulted in less work required. There have been higher underlying costs this year. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). There has been lower spend at Liverpool Street station which has reduced investment reported under the Manged station category. Expenditure is similar to the prior year.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator's assumption this year more than offsetting the underspends from earlier years of the control period. The higher expenditure this control period is a result of additional like-for-like costs largely offset by deferral of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The higher expenditure over the control period includes higher costs to facilitate introduction of the Crossrail services partly offset by deferrals, notably the Shenfield to Southend improvement programme. Savings have been made in Fixed plant as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Expenditure this year is higher than the previous year which includes works to facilitate introduction of Crossrail services and increased work on the Great Eastern overhead line programme, which is the largest single Electrification project this control period in Anglia.

(7) Telecoms – expenditure in the year was lower than the determination, mitigating some of the overspend experienced in earlier years of the control period. The largest area of overspend in the control period has been in Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference. Expenditure is consistent with the previous year.

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

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

In £m 2018-19 prices unless stated

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator’s assumption across the control period. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. These delays have had a knock-on impact upon the Maintenance costs reported this control period (refer to Statement 8a).

(11) Other renewals includes the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator’s determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Delays at the end of control period 4 and contractor issues have led to slippage in the overall programme, with some work planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail’s financial performance (refer to Statement 5).

b. Intelligent infrastructure – expenditure is lower than the regulator assumed across the control period due to delays in implementation earlier in the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

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

In £m 2018-19 prices unless stated

c. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure across the control period was less than the regulator assumed due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

d. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Almost all of the expenditure in the current year is on electrification programmes. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

g. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network and a share of the direct support costs to deliver the overall capital programme within the route. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, Anglia

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	17	18	1	130	103	(27)
High output renewal	33	8	(25)	129	68	(61)
Plain line refurbishment	-	-	-	13	1	(12)
S&C renewal	27	14	(13)	113	104	(9)
S&C refurbishment	11	5	(6)	22	22	-
Track non-volume	1	3	2	8	19	11
Off track	19	-	(19)	41	-	(41)
Total track	**108**	**48**	**(60)**	**456**	**317**	**(139)**
Signalling						
Full conventional resignalling	19	8	(11)	43	26	(17)
Modular resignalling	1	1	-	3	19	16
ERTMS resignalling	-	3	3	2	3	1
Partial conventional resignalling	16	13	(3)	20	59	39
Targeted component renewal	-	2	2	-	4	4
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	-	(3)	52	24	(28)
Level crossings	12	12	-	42	94	52
Minor works	13	4	(9)	41	26	(15)
Centrally managed costs	1	4	3	3	21	18
Other	-	-	-	-	-	-
Total signalling	**65**	**47**	**(18)**	**206**	**276**	**70**
Civils						
Underbridges	11	6	(5)	78	57	(21)
Overbridges	4	2	(2)	16	17	1
Bridgeguard 3	-	-	-	-	-	-
Major structures	2	-	(2)	6	1	(5)
Tunnels	1	-	(1)	1	3	2
Other assets	1	2	1	9	13	4
Structures other	-	-	-	1	3	2
Earthworks	5	2	(3)	39	24	(15)
Other	-	-	-	(3)	-	3
Total civils	**24**	**12**	**(12)**	**147**	**118**	**(29)**
Buildings						
Managed stations	3	8	5	12	22	10
Franchised stations	1	5	4	9	18	9
Light maint depots	1	1	-	7	3	(4)
Depot plant	1	-	(1)	6	8	2
Lineside buildings	-	1	1	4	2	(2)
MDU buildings	2	-	(2)	6	1	(5)
NDS depots	-	-	-	-	1	1
Other	-	-	-	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	**8**	**15**	**7**	**46**	**55**	**9**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	1	1	-	4	17	13
Overhead Line	38	22	(16)	148	148	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	3	-	(3)	6	6	-
Energy efficiency	-	1	1	2	5	3
System capability / capacity	-	-	-	-	-	-
Other electrical power	30	1	(29)	35	8	(27)
Fixed plant	6	3	(3)	18	22	4
Total electrical power and plant	**78**	**28**	**(50)**	**213**	**206**	**(7)**
Telecoms						
Operational communications	2	8	6	12	15	3
Network	-	1	1	4	9	5
SISS	-	-	-	-	-	-
Projects and other	-	-	-	2	2	-
Non-route capital expenditure	3	-	(3)	16	5	(11)
Total telecoms	**5**	**9**	**4**	**34**	**31**	**(3)**
Wheeled plant and machinery						
High output	2	-	(2)	14	13	(1)
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	1	2	1
Intervention	1	1	-	7	13	6
Materials delivery	-	-	-	5	1	(4)
On track plant	2	2	-	5	9	4
Seasonal	-	-	-	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	1	1	-	1	3	2
Road vehicles	-	2	2	2	11	9
S&C delivery	-	-	-	1	1	-
Total wheeled plant and machinery	**6**	**7**	**1**	**36**	**58**	**22**
Information Technology						
IM delivered renewals	10	7	(3)	51	37	(14)
Traffic management	-	1	1	3	5	2
Total information technology	**10**	**8**	**(2)**	**54**	**42**	**(12)**
Property						
MDUs/offices	1	3	2	5	16	11
Commercial estate	1	1	-	4	6	2
Corporate services	-	-	-	-	-	-
Total property	**2**	**4**	**2**	**9**	**22**	**13**
Other renewals						
Asset information strategy	2	1	(1)	15	19	4
Intelligent infrastructure	3	2	(1)	7	10	3
Faster isolations	1	3	2	5	18	13
LOWS	1	-	(1)	1	1	-
Small plant	2	1	(1)	4	5	1
Research and development	1	-	(1)	2	-	(2)
Phasing overlay	-	25	25	-	(5)	(5)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	6	-	(6)	67	-	(67)
Other	(4)	-	4	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	**12**	**32**	**20**	**101**	**48**	**(53)**
Total renewals	**318**	**210**	**(108)**	**1,302**	**1,173**	**(129)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Anglia – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Anglia

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	45	20	(25)	156	107	(49)	35
Access charge supplement Income	(18)	(18)	-	(109)	(109)	-	(21)
Net (income)/cost	**27**	**2**	**(25)**	**47**	**(2)**	**(49)**	**14**
Schedule 8							
Performance element income	(3)	-	3	(5)	-	5	-
Performance element costs	24	1	(23)	88	2	(86)	24
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**21**	**1**	**(20)**	**83**	**2**	**(81)**	**24**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(17)	(17)	(2)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	(4)	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	(1)	-	-
Other industry costs	-	-	1
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(19)**	**(22)**	**(1)**

Statement 10: Other information, Anglia – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Anglia – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like scots, as shown in Statement 5a. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the current year accounting for around half of the variance. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Electrification & fixed plant) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs.

Statement 10: Other information, Anglia – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Costs are broadly in line with the previous year. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Traffic growth (both passenger and freight) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6.

Statement 11:

There is no Statement 11 required for Anglia

Statement 12: Volume incentives, Anglia

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(9)	(2)	28	29	4.5%	1.61	pence per passenger train mile
Passenger farebox (millions)	(5)	(1)	1,219	1,216	3.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	2	2	2.9%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	2,550	2,469	3.9%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(17)**	**(4)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Anglia – continued

In £m 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the continued structural decline in the freight market and passenger growth which has not been kept up with the ambitious increases assumed in the determination this year.

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

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19 Volume unit	FY19 Cost £m	Full Project A Total AFC £m	Full Project B Total AFV unit	Full Project $C = A \div B$ Unit Cost £k/unit	FY18 Volume unit	FY18 Cost £m	Full Project A Total AFC £m	Full Project B Total AFV unit	Full Project $C = A \div B$ Unit Cost £k/unit
Track	Conventional plain line Renewal	km	16	16	40	42	952	33	26	57	74	770
	High Output Renewal	km	47	28	29	47	617	17	16	55	79	696
	Plain line Refurbishment	km	(6)	-	1	3	333	5	1	7	27	259
	S&C Renewal/Refurbishment	point ends	51	22	31	104	298	51	19	35	141	248
	Track Drainage	lm	307	1	1	307	3	400	1	1	400	3
	Fencing	km	23	1	2	36	56	24	2	3	33	91
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	-	3	6	-	-	-	4	5	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**71**	**110**	**-**	**-**	**-**	**69**	**163**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	1	14	42	97	433	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	2	3	16	5	3,200	3	10	15	5	3,000
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**17**	**58**	**-**	**-**	**-**	**10**	**15**	**-**	**-**
Civils	Underbridges	m^2	1,091	5	26	4,618	6	1,911	8	34	5,725	6
	Overbridges (incl BG3)	m^2	151	1	1	642	2	1,050	5	5	1,268	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	10	-	1	10	100	-	-	-	-	-
	Culverts	m^2	192	1	1	318	3	87	1	3	948	3
	Footbridges	m^2	185	-	-	392	-	207	-	-	230	-
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m^2	50	-	1	61	16	22	-	1	130	8
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	25	3	4	169	24	26	1	1	29	34
	EW Drainage	m	-	-	-	-	-	944	-	-	944	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**10**	**34**	**-**	**-**	**-**	**15**	**44**	**-**	**-**
Buildings	Buildings (MS)	m^2	270	-	-	372	-	102	-	-	102	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	122,526	1	7	184,734	0	62,208	5	8	184,434	0
	Buildings (FS)	m^2	88	-	-	844	-	756	-	-	814	-
	Platforms (FS)	m^2	-	-	-	-	-	47	-	-	47	-
	Canopies (FS)	m^2	-	-	-	-	-	11	-	-	281	-
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	43	1	1	84	12	45	-	-	45	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	275	-	-	275	-
	Light Maintenance Depots	m^2	8,278	1	1	14,686	0	6,758	-	-	13,858	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	2,090	-	-	3,005	-	6,600	-	-	6,600	-
	MDU Buildings	m^2	29,356	2	5	41,937	0	12,581	1	3	28,644	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**5**	**14**	**-**	**-**	**-**	**6**	**11**	**-**	**-**

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

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
			Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	35	9	68	162	420	27	11	57	120	475
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	192	19	53	835	63	223	6	33	865	38
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	1	1	3	8	375	7	1	3	8	375
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**29**	**124**	**-**	**-**	**-**	**18**	**93**	**-**	**-**
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	1,427	2	5	1,427	4	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		5	-	-	5	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**1,432**	**2**	**5**	**1,432**	**-**	**-**	**-**	**-**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable increase in the unit cost for conventional plain line renewal and plain line refurbishment. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small. There has been a large decrease in the high output unit cost which was largely due to the increase volume in the current year. High output has a large element of fixed cost that is always spend regardless of volumes delivered, therefore an increase in volume will naturally lead to a lower unit cost. There was an increase in the unit rate of switches and crossings renewals, partly related to expensive jobs at Gidea Park and Witham. There has been a decrease in the unit cost for fencing due to the fact that in the current year there was proportional less renewals of expensive higher fences than in the previous year.

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

In £m 2018-19 prices unless stated

(3) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been a reduction in the unit costs of overbridges because there has only been repair work in the current year compared to a significant amount of replacement work in the prior year. In the retaining walls category there has been an increase in the unit cost. This is because there is no cheap preventative work taking place in the current year whilst there was a significant amount in the prior year.

(4) Electrical Power and Fixed Plant – There was a decrease in the unit cost in wiring. There were only two projects in this category and they both delivered volumes over both years. The total forecast volumes increased in the current year which therefore drove down the unit rate. In structure renewals the unit cost increased. There was no real change in the forecast volumes but there was a large increase in the anticipated final costs of the projects at Great Eastern and Shenfield.

Statement 1: Summary regulatory financial performance, East Midlands

in £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	223	224	(1)	1,207	1,206	1	246
Fixed Income	43	43	-	121	120	1	21
Variable Income	64	72	(8)	317	325	(8)	60
Other Single Till Income	63	32	31	184	150	34	35
Opex memorandum account	2	-	2	15	-	15	4
Total Income	**395**	**371**	**24**	**1,844**	**1,801**	**43**	**366**
Operating expenditure							
Network operations	25	13	(12)	138	86	(52)	28
Support costs	15	21	6	83	116	33	17
Traction electricity, industry costs and rates	35	36	1	145	143	(2)	31
Network maintenance	75	63	(12)	375	322	(53)	75
Schedule 4	30	8	(22)	71	61	(10)	10
Schedule 8	7	1	(6)	45	2	(43)	2
Total operating expenditure	**187**	**142**	**(45)**	**857**	**730**	**(127)**	**163**
Capital expenditure							
Renewals	144	106	(38)	746	670	(76)	129
PR13 enhancement expenditure	359	148	(211)	1,032	1,240	208	247
Non PR13 enhancement expenditure	5	-	(5)	19	-	(19)	-
Total capital expenditure	**508**	**254**	**(254)**	**1,797**	**1,910**	**113**	**376**
Other expenditure							
Financing costs	126	146	20	506	574	68	124
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	**126**	**146**	**20**	**506**	**574**	**68**	**124**
Total expenditure	**821**	**542**	**(279)**	**3,160**	**3,214**	**54**	**663**

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR’s determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Network Rail’s revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income in the year and for the control period was in line with the regulatory expectation. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for most of the higher income in the control period compared to the regulator’s expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator’s assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to higher business rates than the regulator expected. The variances are set out in more detail in Statement 10.

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure – once again, Support costs are lower than the determination this year, with the largest contributor arising from an actuarial reassessment of legacy insurance liabilities. Over the course of the control period there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Traction electricity, industry costs and rates are broadly in line with the determination as lower electricity costs (offset by lower recoveries of these costs from operators through income) have been offset by higher Business rates and British Transport Police costs. Across the control period, costs have been slightly higher than the regulatory expectation due to a combination of these same factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Costs are in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events and other externalities which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Signalling Equivalent Units and Switches & Crossings) and the impact of the delays to the May timetable publication. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track). Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Expenditure was higher than the previous year, notably the extra investment undertaken on the Thameslink line to improve resilience. Renewals costs are discussed in more detail in Statement 9a.

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline largely due to higher investment in the London to Corby Electrification scheme. The determination expected that a higher proportion of this work would be completed in the earlier years of the control period, but Network Rail has delivered the scheme in a different profile, which has contributed to less expenditure across the control period than the regulator assumed. Expenditure is higher than the previous year, reflecting the timing of progress on electrification programmes. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are lower than the determination expected due to lower levels of average debt in the year accompanied by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are lower than the regulatory target mainly due to the same factors. Costs are broadly in line with the previous year as higher levels of debt have been offset by lower interest costs. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, East Midlands

in £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**3,050**	**3,211**	**(161)**
Indexation to 2018-19 prices	375	395	(20)
Opening RAB for the year (2017-18 prices)	**3,425**	**3,606**	**(181)**
Indexation for the year	109	115	(6)
Opening RAB (2018-19 prices)	**3,534**	**3,721**	**(187)**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	134	106	28
PR13 enhancements	348	267	81
Non-PR13 enhancements	5	-	5
Total enhancements	353	267	86
Amortisation	(150)	(150)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**3,871**	**3,944**	**(73)**

RAB Regulatory financial position - cumulative, East Midlands

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**2,799**	**3,065**	**3,200**	**3,325**	**3,534**	**2,799**
Adjustments for the actual capital expenditure outturn in CP4	80	-	-	-	-	80
Renewals	156	143	133	122	134	688
PR13 enhancements	161	129	130	237	348	1,005
Non-PR13 enhancements	8	(1)	6	1	5	19
Total enhancements	169	128	136	238	353	1,024
Amortisation	(137)	(136)	(144)	(151)	(150)	(718)
Adjustments for under-delivery of regulatory outputs	(2)	-	-	-	-	(2)
Closing RAB	**3,065**	**3,200**	**3,325**	**3,534**	**3,871**	**3,871**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is lower than the regulator anticipated in its' determination. This is mostly due to lower than expected investment in enhancements in the early years of the control period, notably MML Electrification, as outlined in the previous years' Regulatory financial statements.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There is a significant contribution from the London to Corby electrification programme this year.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, East Midlands

in £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**140**	**122**	**144**	**154**	**106**	**666**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	7	-	-	-	-	7
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**147**	**122**	**144**	**154**	**106**	**673**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(31)	(11)	(62)	(51)	(4)	(159)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(3)	(6)	(7)	(18)
Adjustments for efficient overspend	48	39	67	26	40	220
Capitalised financing on efficient overspend	1	3	5	8	9	26
25% retention of efficient overspend	(11)	(10)	(17)	(7)	(10)	(55)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(2)	(6)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	2	1	-	2	10
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	-	-	(1)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	(1)	-	-	(1)
Other adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**156**	**143**	**133**	**122**	**134**	**688**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	(1)	-	-	(2)	(3)
Adjustment for 25% retention of efficient overspend	12	9	18	7	11	57
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	1	1	-	-	1	3
Total actual renewals expenditure (see statement 9)	**169**	**152**	**151**	**129**	**144**	**745**

Statement 2b: RAB - reconciliation of expenditure, East Midlands - continued

in £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**132**	**182**	**304**	**313**	**267**	**1,198**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	20	(20)	-	-	-	-
Capitalised financing on CP4 deferrals	-	1	-	-	-	1
Baseline adjustments	-	(30)	(18)	210	(120)	42
Capitalised financing on Baseline adjustments	-	(1)	(1)	2	4	4
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**152**	**132**	**285**	**525**	**151**	**1,245**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	4	(11)	(151)	(279)	213	(224)
Capitalised financing on acceleration / (deferrals) of expenditure	-	-	(3)	(12)	(15)	(30)
Adjustments for efficient overspend / (underspend)	5	4	3	(5)	5	12
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-	-
25% retention of efficient overspend / (underspend)	(1)	(1)	(1)	1	(1)	(3)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	6	(4)	8	(6)	4
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(1)	1	(1)	1	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	1	-	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**161**	**129**	**130**	**237**	**348**	**1,005**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	9	(1)	5	-	5	18
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(1)	(2)
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1	1	3
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**8**	**(1)**	**6**	**1**	**5**	**19**
Total enhancements (added to the RAB - see statement 2a)	**169**	**128**	**136**	**238**	**353**	**1,024**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	-	3	9	9	21
Adjustment for 25% retention of efficient overspend	1	2	-	-	2	5
Other Adjustments	-	-	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	8	9	11	48	31	107
Other adjustments	-	-	-	1	-	1
Total actual enhancement expenditure (see statement 3)	**178**	**139**	**150**	**296**	**395**	**1,158**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with Track accounting for most of the difference in both the current year and across the control period as whole. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(8) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

(9) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(10) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions electrification programmes and portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(11) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

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

In £m 2018-19 prices unless stated

(12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(13) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

(14) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, East Midlands

in £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	2	(1)	6	6	-
Stations - Access for All (AfA)	-	-	-	1	1	-
Development	-	1	1	3	3	-
Level crossing safety	5	4	(1)	11	12	1
Passenger journey improvement	24	(38)	(62)	48	53	5
The strategic rail freight network	-	6	6	13	15	2
Total funds	**32**	**(25)**	**(57)**	**82**	**90**	**8**
Committed projects						
Thameslink	4	3	(1)	55	61	6
Total committed projects	**4**	**3**	**(1)**	**55**	**61**	**6**
Named schemes						
The Electric Spine:						
MML electrification	7	(419)	(426)	302	61	(241)
Derby station area remodelling	83	55	(28)	141	133	(8)
DfT SoFA amount	235	546	311	441	850	409
Total Electric Spine projects	**325**	**182**	**(143)**	**884**	**1,044**	**160**
HLOS capacity metric schemes						
MML long distance high speed services train lengthening	3	(19)	(22)	7	1	(6)
Total HLOS capacity metric schemes	**3**	**(19)**	**(22)**	**7**	**1**	**(6)**
CP4 project rollovers						
MML linespeed improvements	-	2	2	28	26	(2)
Station Security	-	-	-	-	1	1
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**-**	**2**	**2**	**28**	**27**	**(1)**
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	(1)	(1)	1	-	(1)
Depots and stabling	(5)	6	11	-	17	17
Income generating property schemes	-	-	-	1	-	(1)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(26)	-	26
Total other projects	**(5)**	**5**	**10**	**(24)**	**17**	**41**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**359**	**148**	**(211)**	**1,032**	**1,240**	**208**
B) Investments not included in PR13						
Government sponsored schemes						
Ilkestone New Station	-	-	-	6	-	(6)
Other government sponsored schemes	4	-	(4)	4	-	(4)
Total Government sponsored schemes	**4**	**-**	**(4)**	**10**	**-**	**(10)**
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	**-**	**-**	**-**	**5**	**-**	**(5)**
Discretionary Investment	**1**	**-**	**(1)**	**1**	**-**	**(1)**
Total non PR13 enhancement expenditure	**5**	**-**	**(5)**	**19**	**-**	**(19)**
Total Network Rail funded enhancements (see Statement 1)	**364**	**148**	**(216)**	**1,051**	**1,240**	**189**
Third Party PAYG	**31**	**-**	**(31)**	**107**	**-**	**(107)**
Total enhancements (see statement 2b)	**395**	**148**	**(247)**	**1,158**	**1,240**	**82**

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £364m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£395m) less the PAYGO schemes funded by third parties (£31m).

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline, reversing some of the underspends in the earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2018-19 prices unless stated

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period was generally in line with the Hendy baseline expectation. Investment this year included work at Elstree & Borehamwood station.

b. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure in the current year and across the control period was consistent with the baseline.

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. Whilst expenditure was higher than the baseline this year it was slightly lower across the control period. The variance in the current year was partly caused by changes made to the baseline by DfT as funds were recycled to other parts of the enhancement portfolio. Expenditure this year included improvements to line speeds around Market Harborough and Leicester and works at Ambergate.

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. There was minimal activity in the current year but across the control period various schemes were delivered with total investment consistent with the Hendy baseline.

(6) PR13 funded schemes – Committed Projects – there is only one programme under this heading this control period: Thameslink. The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure across the control period is lower than the baseline. This is mainly due to deferral of activity which has been partly offset by extra programme costs which has resulted in the financial underperformance reported in Statement 5a.

(7) PR13 funded schemes – named schemes - expenditure in the year is higher than the baseline, negating some of the underspends from earlier years of the control period. Across CP5, expenditure is lower than the regulatory assumption mostly due to postponement of outputs until future control periods, most notably electrification works. Notable variances between expenditure and baselines are set out below:

a. Midland Mainline Electrification - this project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. This year, the management of this programme has been combined with the Electric Spine programme which has resulted in a significant adjustment to the Hendy baseline this year. Therefore, progress should be considered in conjunction with Electric Spine. Across the two headings, investment has been lower then Hendy baseline this control period as parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered to be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5). This has been reported under the Electric Spine heading in Statement 5).

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2018-19 prices unless stated

b. Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. This programme should be considered in conjunction with the Electric Spine programme as responsibility for delivering outputs between these two schemes has merged. Expenditure across the control period is higher than the Hendy baseline which has contributed to the financial underperformance referenced below.

c. Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. This year the DfT change control process resulted is a change in the scope of the programme to deliver many of the projects previously managed through the MML electrification category. Therefore, progress should be considered across the two headings. Expenditure in the control period is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main ine Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Programme elongation has resulted in financial underperformance (as reported in Statement 5).

(8) PR13 funded schemes – HLOS capacity metric schemes – there is only one programme included in this category this control period: MML long distance high speed services train lengthening. The project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Expenditure across the control period was higher than the Hendy baseline which mainly arose in the current year. This was due to DfT reallocating some of the CP5 enhancements budget to other areas of the portfolio.

(9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category is focused on one programme: MML Linespeed Improvements – this project aims to increase the line speed on the Midlands Main Line. Across the control period expenditure has been broadly in line with the baseline assumption. As expected, expenditure in the current year was minimal as the project is substantially complete.

(10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. Notable variances to the baseline include:

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2018-19 prices unless stated

(11) Depots & stabling – the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Minimal activity was delivered in CP5 with outputs being deferred until later in the control period or being delivered through alternative enhancement funding categories.

(12) Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a £300m contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £300m (refer to Statement 2a).

(13) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main expenditure in this category in the current year relates to timetable publication delays. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5).

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. PAYGO – the largest item of expenditure this year was the contribution to the construction of a new station at Brent Cross to improve passenger services and choices.

Statement 4: Net debt and financial ratios, East Midlands

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**2,626**	**2,724**	**98**	**1,702**	**1,666**	**(36)**
Income						
Grant income	(223)	(224)	(1)	(1,138)	(1,137)	1
Fixed charges	(43)	(43)	-	(116)	(115)	1
Variable charges	(64)	(72)	(8)	(300)	(307)	(7)
Other single till income	(63)	(32)	31	(178)	(146)	32
Total income	**(393)**	**(371)**	**22**	**(1,732)**	**(1,705)**	**27**
Expenditure						
Network operations	25	13	(12)	128	80	(48)
Support costs	15	21	6	80	108	28
Traction electricity, industry costs and rates	35	36	1	142	134	(8)
Network maintenance	75	63	(12)	353	303	(50)
Schedule 4	30	8	(22)	68	57	(11)
Schedule 8	7	1	(6)	42	1	(41)
Renewals	144	106	(38)	702	629	(73)
PR13 enhancement	359	267	(92)	988	1,137	149
Non-PR13 enhancement	5	-	(5)	17	-	(17)
Total expenditure	**695**	**515**	**(180)**	**2,520**	**2,449**	**(71)**
Financing						
Interest expenditure on nominal debt - FIM covered	13	55	42	96	196	100
Interest expenditure on index linked debt - FIM covered	14	20	6	64	81	17
Expenditure on the FIM	14	33	19	79	130	51
Interest expenditure on government borrowing	58	-	(58)	138	-	(138)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(7)	(6)
Total interest costs	**99**	**106**	**7**	**376**	**400**	**24**
Accretion on index linked debt - FIM covered	27	40	13	109	174	65
Total financing costs	**126**	**146**	**20**	**485**	**574**	**89**
Corporation tax	-	-	-	-	-	-
Other	(76)	-	76	3	29	26
Movement in net debt	**352**	**290**	**(62)**	**1,276**	**1,347**	**71**
Closing net debt	**2,978**	**3,014**	**36**	**2,978**	**3,013**	**35**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	0.69	0.84	0.63	0.55	0.56	0.74
FFO/interest	2.95	2.94	2.65	2.25	2.08	2.15
Net debt/RAB (gearing)	70.0%	70.7%	72.7%	76.6%	76.9%	76.4%
FFO/debt	8.6%	8.6%	7.9%	7.3%	6.9%	7.6%
RCF/debt	5.4%	5.6%	4.8%	4.1%	3.6%	4.1%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.

(2) Network Rail's debt attributable to East Midlands has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.

(3) Net debt attributable to East Midlands at 31 March 2019 is slightly lower than the regulator assumed. This is mainly due to lower enhancements expenditure compared to the regulator's expectation which has more than offset extra renewals investment, higher performance regime costs and higher net operating costs. Reduced cash outflows from lower average levels of net debt and income from asset divestment have also contributed to the lower net debt position.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed this year. This is due to a combination of lower average net debt during the year compared to the regulatory expectation along with lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed across the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short-term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16)Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator did not expect East Midlands to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). This year, the ratio was lower than the regulatory expectation. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was around 0.3, further below the regulatory assumption. This was mainly due to higher Schedule 4, Network operations and Maintenance costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The decline in the underlying ratio compared to the previous year is mostly due to higher costs under the performance regime (schedule 4 and schedule 8), as well as higher non-accreting interest costs this year as the level of DfT issued debt increases

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

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is slightly higher than the regulatory assumed which is mainly a result of higher net operational expenditure this control period along with extra renewals investment and non-PR13 enhancements which has been partly offset by lower enhancement expenditure. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail's business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 4 costs which is partly offset by lower than assumed net debt. The decline in the underlying ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 4, which all get harder with each passing year.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, East Midlands

in £m 2018-19 prices unless stated

2018-19

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	223	224	(1)		(1)	-	-	-	-
Fixed Income	43	43	-		-	-	-	-	-
Variable Income	49	52	(3)		-	-	-	(3)	(3)
Other Single Till Income	63	32	31		28	-	-	3	3
Opex memorandum account	2	-	2		4	-	-	(2)	(2)
Total Income	**380**	**351**	**29**		**31**	**-**	**-**	**(2)**	**(2)**
Expenditure									
Network operations	25	13	(12)		-	-	-	(12)	(12)
Support costs	15	21	6		-	-	-	6	6
Industry costs and rates	20	16	(4)		(4)	-	-	-	-
Traction electricity	-	-	-		-	-	-	-	-
Reporter's fees	-	-	-		-	-	-	-	-
Network maintenance	75	63	(12)		-	(4)	-	(8)	(8)
Schedule 4 costs	30	8	(22)		-	(4)	-	(18)	(18)
Schedule 8 costs	7	1	(6)		-	-	-	(6)	(6)
Renewals	144	106	(38)		12	(12)	-	(38)	(10)
PR13 Enhancements	359	148	(211)		-	(211)	-	-	1
Non PR13 Enhancements	5	-	(5)		-	(4)	-	(1)	(1)
Financing Costs	126	146	20		20	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**806**	**522**	**(284)**		**28**	**(235)**	**-**	**(77)**	**(48)**
Total:			**(255)**		**59**	**(235)**	**-**	**(79)**	**(50)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(50)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	-
Under-delivery of train performance requirements (CaSL)	-
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**-**
Total financial out / (under) performance to be recognised	**(50)**

Statement 5a: Total financial performance, East Midlands - continued

in £m 2018-19 prices unless stated

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
					Cumulative				
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	1,207	1,206	1		1	-	-	-	-
Fixed Income	121	120	1		1	-	-	-	-
Variable Income	264	261	3		-	-	-	3	3
Other Single Till Income	184	150	34		28	-	-	6	6
Opex memorandum account	15	-	15		11	-	-	4	4
Total Income	**1,791**	**1,737**	**54**		**41**	**-**	**-**	**13**	**13**
Expenditure									
Network operations	138	86	(52)		-	-	-	(52)	(52)
Support costs	83	116	33		1	-	-	32	32
Industry costs and rates	92	78	(14)		(11)	-	-	(3)	(3)
Traction electricity	-	-	-		-	-	-	-	-
Reporter's fees	-	1	1		1	-	-	-	-
Network maintenance	375	322	(53)		-	(12)	-	(41)	(41)
Schedule 4 costs	71	61	(10)		-	(1)	-	(9)	(9)
Schedule 8 costs	45	2	(43)		-	-	-	(43)	(43)
Renewals	746	670	(76)		12	131	-	(219)	(56)
PR13 Enhancements	1,032	1,240	208		-	223	-	(15)	(2)
Non PR13 Enhancements	19	-	(19)		-	(18)	-	(1)	(1)
Financing Costs	506	574	68		68	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**3,107**	**3,150**	**43**		**71**	**323**	**-**	**(351)**	**(175)**
Total:			**97**		**112**	**323**	**-**	**(338)**	**(162)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(162)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(13)
Under-delivery of train performance requirements (CaSL)	(5)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(3)
Missed Enhancement milestones	(2)
Total adjustment for under-delivery outputs	**(23)**
Total financial out / (under) performance to be recognised	**(185)**

Statement 5a: Total financial performance, East Midlands - continued

in £m 2018-19 prices unless stated

	2018-19			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	(15)	(20)	5	(53)	(64)	11
Total variance not included in total financial performance:	**(15)**	**(20)**	**5**	**(53)**	**(64)**	**11**
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Property Divestment	28	-	28	28	-	28
Total variance not included in total financial performance:	**28**	**-**	**28**	**28**	**-**	**28**
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total financial performance:	**-**	**-**	**-**	**1**	**-**	**1**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	15	20	(5)	53	64	(11)
Total variance not included in total financial performance:	**15**	**20**	**(5)**	**53**	**64**	**(11)**
Breakdown of variance not included in total financial performance - Renewals:						
Thameslink Resilience Programme	12	-	12	12	-	12
Total variance not included in total financial performance:	**12**	**-**	**12**	**12**	**-**	**12**

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(2) Variable income – up until this year, Network Rail had achieved outperformance mostly as a result of increased capacity charges as Network Rail supplied additional train paths in response to customer demand. However, in the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. Expected increases in passenger demand (as illustrated in Statement 12) in the latter years of the control period has not materialised. Timetable changes introduced in the current year were the most widespread in a generation. However, despite the improvements in capacity delivered, not all of the planned changes were able to be enacted. This coupled with operators' lack of adequately trained staff meant that the increase in services did not match the regulatory expectation. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(3) Other single till income – this year, financial underperformance has been reported as additional property and depot income has offset lower freight revenue. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The favourable performance in the control period is largely driven by additional property income, arising from both rental and additional disposals which has offset lower freight income arising from structural decline in the industry. Other single till income is set out in more detail in Statement 6a.

(4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts earned under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slower passenger growth this year has partly offset the benefits reported in earlier years of the control period from extra passenger growth. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(5) Network operations costs in 2018/19 are higher than the regulator assumed. About one-fifth of this is due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Network Rail has also chosen to invest in performance improvement schemes. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(6) Support costs – Once again, Support costs are favourable to the regulatory target with minor outperformance contributions from a number of areas. Over the course of the control period there have substantial savings well in excess of the regulator’s targets. Support costs are discussed in more detail in Statement 7. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(7) Industry costs and rates – the negative FPM in the control period is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs, an element of which is passed onto Network Rail.

(8) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(9) Schedule 4 costs – this year costs are higher than the determination assumed. This is mainly due to higher like-for-like costs, continuing the trend of earlier years of the control period and has resulted in the financial underperformance reported in this statement. This year, around one-third of the higher like-for-like costs were caused by the delay in publishing the May timetable and the knock-on impact on future timetable publications. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events and other externalities. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated, such as the bridge collapse at Barrow-on-Soar and compensation costs relating to Storm Emma. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are not included when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(10) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall level of disruption. The underperformance across the control period is due to the same factors. Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(11) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b.

(12) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this control period from electrification programmes and portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, East Midlands – continued

In £m 2018-19 prices unless stated

(13) Financing costs – financing costs this control period are lower than the regulator expected mainly due to lower interest rates (notably inflation which impacts accreting debt) which have more than offset higher levels of average net debt compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were achieved in the final two years of the control period, they were missed in earlier years. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were achieved in the final two years of the control period, they were missed in earlier years. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.

(4) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.

(5) Asset management there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

in £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(30)	(2)	(28)	(7)	-	(7)	-	-
Signalling	(20)	(16)	(4)	(1)	-	(1)	-	-
Civils	15	19	(4)	(1)	-	(1)	-	-
Buildings	(1)	(1)	-	-	-	-	-	-
Electrical power and fixed plant	(3)	(3)	-	-	-	-	-	-
Telecoms	-	-	-	-	-	-	-	-
Wheeled plant and machinery	-	-	-	-	-	-	-	-
IT	(1)	(1)	-	-	-	-	-	-
Property	-	-	-	-	-	-	-	-
Other renewals	2	4	(2)	(1)	-	(1)	-	-
Total	**(38)**	**-**	**(38)**	**(10)**	**-**	**(10)**	**-**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(129)	15	(144)	(36)	-	(34)	(2)	-
Signalling	18	62	(44)	(11)	-	(12)	1	-
Civils	30	50	(20)	(5)	-	(5)	-	-
Buildings	9	9	-	-	-	-	-	-
Electrical power and fixed plant	(2)	2	(4)	(1)	-	-	(1)	-
Telecoms	4	4	-	-	-	-	-	-
Wheeled plant and machinery	11	11	-	-	-	-	-	-
IT	(10)	(10)	-	-	-	-	-	-
Property	-	-	-	-	-	-	-	-
Other renewals	(7)	-	(7)	(3)	-	(1)	(2)	-
Total	**(76)**	**143**	**(219)**	**(56)**	**-**	**(52)**	**(4)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR’s Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year and across the control period. Nearly one-third of the control period underperformance was expected in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. This control period costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – there has been financial underperformance in the control period mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, such as East Nottingham where issues with new technology and contractor claims both contributed to escalated costs. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Higher costs have also been caused by externalities, such as damage to the network caused by weather or other events, such as the bridge collapse at Barrow-on-Soar. The unit rates on these types of jobs are higher than usual given the time critical nature of the incidents.

(5) Electrical power and fixed plant – financial underperformance has been reported for this asset category across the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available.

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. CP4 rollover: The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period is mainly due to FTN.

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

in £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	(426)	(433)	-	7	2
MML linespeed improvements	2	2	-	-	-
Thameslink	(1)	(7)	-	6	1
Seven day railway	-	-	-	-	-
Electric Spine	283	290	-	(7)	(2)
T12 Enhancements	(4)	-	-	(4)	(1)
Stations - Access for All (AfA)	-	-	-	-	-
Other Enhancements	(70)	(67)	-	(3)	-
Total	**(216)**	**(215)**	**-**	**(1)**	**-**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	(241)	(241)	-	-	-
MML linespeed improvements	(2)	-	-	(2)	-
Thameslink	6	9	-	(3)	-
Seven day railway	-	-	-	-	-
Electric Spine	401	408	-	(7)	(2)
T12 Enhancements	(4)	-	-	(4)	(1)
Stations - Access for All (AfA)	-	-	-	-	-
Other Enhancements	29	29	-	-	-
Total	**189**	**205**	**-**	**(16)**	**(3)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

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

In £m 2018-19 prices unless stated

Comments:

(1) Electric spine – this should be considered along with the Derby Station Area remodelling programme. Some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed. This includes increased signalling and platform costs due to changes in the scheme design, materials price increases and revised method and sequencing during commissioning.

(2) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

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

Statement 5d: Total financial performance - REBS Performance, East Midlands

in £m 2018-19 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2018-19			
	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	71	80	(9)	-	-	-	(9)
Capacity charge	145	144	1	-	-	-	1
Electricity asset utilisation charge	5	3	2	-	-	-	2
Property income	22	11	11	-	-	-	11
Expenditure							
Network operations	138	83	(55)	-	-	-	(55)
Support costs	83	112	29	-	1	-	28
RSSB and BT Police	26	23	(3)	-	-	-	(3)
Network maintenance	375	334	(41)	(7)	-	-	(34)
Schedule 4 costs	71	67	(4)	5	-	-	(9)
Schedule 8 costs	45	-	(45)	-	-	-	(45)
Renewals	746	673	(73)	146	-	(163)	(56)
Total REBS performance			**(187)**	**144**	**1**	**(163)**	**(169)**

Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(13)
Under-delivery of train performance requirements (CaSL)	(5)
Missed milestones for asset management - data quality	-
Missed ORBIS milestones	(3)
Total adjustment for under delivery of outputs and reduced sustainability	**(21)**
Cumulative performance to end of 2018-19	**(190)**
Less cumulative outperformance recognised up to the end of 2017-18	(138)
Net REBS performance for 2018-19	**(52)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**223**	**224**	**(1)**	**1,207**	**1,206**	**1**	**246**
Franchised track access income							
Fixed charges	**43**	**43**	**-**	**121**	**120**	**1**	**21**
Variable charges							
Variable usage charge	11	12	(1)	54	54	-	10
Traction electricity charges	15	20	(5)	53	64	(11)	10
Electrification asset usage charge	1	1	-	5	3	2	1
Capacity charge	28	30	(2)	144	142	2	29
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	9	9	-	61	62	(1)	10
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**64**	**72**	**(8)**	**317**	**325**	**(8)**	**60**
Total franchised track access income	**107**	**115**	**(8)**	**438**	**445**	**(7)**	**81**
Total franchised track access and grant income	**330**	**339**	**(9)**	**1,645**	**1,651**	**(6)**	**327**
Other single till income							
Property income	34	2	32	52	10	42	7
Freight income	4	7	(3)	19	30	(11)	3
Open access income	-	-	-	-	-	-	-
Stations income	9	10	(1)	44	49	(5)	8
Facility and financing charges	11	10	1	48	46	2	12
Depots Income	5	3	2	21	14	7	5
Other income	-	-	-	-	1	(1)	-
Total other single till income	**63**	**32**	**31**	**184**	**150**	**34**	**35**
Total income	**393**	**371**	**22**	**1,829**	**1,801**	**28**	**362**

Statement 6a: Analysis of income, East Midlands – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail's commercial estate. Removing the impact of this single transaction, income was broadly in line with the regulatory target, with lower traction electricity income and freight revenue being offset by additional income from core property activity.

Statement 6a: Analysis of income, East Midlands – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is slightly lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income is broadly in line with the regulatory expectation for the current year and across the control period. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, East Midlands – continued

In £m 2018-19 prices unless stated

(6) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was broadly consistent with the previous year, which was in line with the regulator's assumption.

(7) Property income – property income in the current year includes the widely-reported divestment of large parts of the commercial estate, an element of which relates to East Midlands route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. After removing the impact of the asset divestment income, Property income has higher than the determination target this year with additional property rental income generated from Network Rail's commercial estate, continuing the trend of the earlier years of the control period. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Even after excluding the distortive impact of this transaction, income is higher than the regulator assumed with higher property rental income and extra revenue from property disposals. The location and timing of Property sales can be erratic depending upon the opportunities that exist in a given year. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was slightly lower than the previous year due to fewer underlying property disposals being achieved this year.

(8) Freight Income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has significantly decreased this control period. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. Income is consistent with the previous year.

(9) Depot income – income was higher in both the current year and across the control period. This is mainly due to offering additional services to operators allowing more revenue than the regulator expected to be earned.

Statement 6b: Analysis of other single till income, East Midlands

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	4	3	1	18	14	4	3
Property sales	30	-	30	34	2	32	4
Adjustment for commercial opex	-	(1)	1	-	(6)	6	-
Total property income	**34**	**2**	**32**	**52**	**10**	**42**	**7**
Freight income							
Freight variable usage charge	4	6	(2)	17	25	(8)	3
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	1	2	(1)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	1	-	1	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	**4**	**7**	**(3)**	**19**	**30**	**(11)**	**3**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stations income							
Managed stations income							
Long term charge	-	1	(1)	-	3	(3)	-
Qualifying expenditure	-	1	(1)	1	6	(5)	-
Total managed stations income	-	2	(2)	1	9	(8)	-
Franchised stations income							
Long term charge	5	4	1	21	19	2	4
Stations lease income	4	4	-	22	21	1	4
Total franchised stations income	9	8	1	43	40	3	8
Total stations income	**9**	**10**	**(1)**	**44**	**49**	**(5)**	**8**
Facility and financing charges							
Facility charges	11	10	1	48	46	2	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**11**	**10**	**1**	**48**	**46**	**2**	**12**
Depots income	**5**	**3**	**2**	**21**	**14**	**7**	**5**
Other	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**
Total other single till income	**63**	**32**	**31**	**184**	**150**	**34**	**35**

Statement 6b: Analysis of other single till income (unaudited), East Midlands – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	6	(9)	88	45	(43)	18
Signalling shift managers	1	-	(1)	4	3	(1)	-
Local operations managers	-	1	1	4	3	(1)	1
Controllers	2	2	-	9	7	(2)	2
Electrical control room operators	-	-	-	-	2	2	-
Total signaller expenditure	**18**	**9**	**(9)**	**105**	**60**	**(45)**	**21**
Non-signaller expenditure							
Mobile operations managers	-	1	1	-	6	6	-
Managed stations	-	1	1	-	8	8	-
Performance	-	1	1	1	3	2	-
Customer relationship executives	-	-	-	3	1	(2)	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	4	4	-
Other	-	-	-	12	2	(10)	3
Operations delivery	2	-	(2)	8	-	(8)	2
HQ - Operations services	3	-	(3)	3	-	(3)	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	3	1	(2)	9	6	(3)	2
Other operating income	(1)	(1)	-	(3)	(4)	(1)	(1)
Total non-signaller expenditure	**7**	**4**	**(3)**	**33**	**26**	**(7)**	**7**
Total network operations expenditure	**25**	**13**	**(12)**	**138**	**86**	**(52)**	**28**
Support costs							
Core support costs							
Human resources	1	3	2	6	15	9	1
Information management	3	3	-	16	17	1	3
Government and corporate affairs	-	1	1	1	5	4	-
Group strategy	1	1	-	6	6	-	1
Finance	1	1	-	5	7	2	1
Business services	1	1	-	5	4	(1)	1
Accommodation	2	1	(1)	12	4	(8)	3
Utilities	-	2	2	8	13	5	2
Insurance	1	3	2	9	14	5	2
Legal and inquiry	-	-	-	2	2	-	1
Safety and sustainable development	1	1	-	5	2	(3)	1
Strategic sourcing	1	-	(1)	1	2	1	-
Business change	-	-	-	1	1	-	-
Other corporate functions	-	-	-	(1)	1	2	(1)
Core support costs	**12**	**17**	**5**	**76**	**93**	**17**	**15**
Other support costs							
Asset management services	2	3	1	11	14	3	2
Network Rail telecoms	3	1	(2)	11	10	(1)	2
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(1)	-	1	(6)	-	6	(1)
Commercial property	-	-	-	(1)	-	1	-
Group costs	(1)	-	1	(8)	(1)	7	(1)
Total other support costs	**3**	**4**	**1**	**7**	**23**	**16**	**2**
Total support costs	**15**	**21**	**6**	**83**	**116**	**33**	**17**
Traction electricity, industry costs and rates							
Traction electricity	15	20	5	53	64	11	10
Business rates	14	11	(3)	56	49	(7)	13
British transport police costs	4	4	-	25	21	(4)	5
RSSB costs	-	-	-	1	2	1	-
ORR licence fee and railway safety levy	2	1	(1)	9	5	(4)	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	1	-	1
Total traction electricity, industry costs and rates	**35**	**36**	**1**	**145**	**143**	**(2)**	**31**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**75**	**70**	**(5)**	**366**	**345**	**(21)**	**76**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumption this year with higher signaller costs partly offset by lower Traction electricity costs and Support costs savings. Total costs are broadly in line with the previous year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are favourable to the regulatory target with a minor outperformance contribution from a number of areas. Over the course of the control period there have substantial savings well in excess of the regulator's targets.

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

In £m 2018-19 prices unless stated

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(9) Accommodation – for the control period costs were higher than the regulatory target. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 17 per cent lower than the CP4 exit position by the end of control period 5, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the ambitious regulatory target.

(10) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies.

(11) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(12) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the control period mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.

(13) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements.

(14) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base.

(15) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(16) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency's revaluation exercise.

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

In £m 2018-19 prices unless stated

(17) British Transport Police costs - expenses across the control period are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year broadly in line with the previous year.

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

in £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	17	12	12	13	13
MOMS	-	-	-	-	-
Control	1	2	2	1	2
Planning & Performance Staff Costs	-	-	-	1	-
Managed Stations Staff Costs	-	-	1	-	-
Operations Management Staff Costs	1	-	-	-	1
Other	9	15	13	13	9
Total operations & customer services costs	28	29	28	28	25
Total Network Operations	**28**	**29**	**28**	**28**	**25**
Support					
Human resources					
Functional support	2	1	1	1	1
Training (inc Westwood)	-	-	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	-	-	-	-
Total human resources	2	1	1	1	1
Information management					
Support	-	-	-	-	-
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	4	3	3	3	3
Other	-	-	-	-	-
Total information management	4	3	3	3	3
Finance	1	-	2	1	1
Business Change	-	1	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	-	1
Planning & development	2	1	1	1	1
Safety & compliance	-	-	-	-	-
Other corporate services	1	-	-	(5)	1
Commercial property	1	3	2	3	2
Infrastructure Projects	(2)	(1)	(1)	(1)	(1)
Route Services	-	-	-	4	-
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	2	2	2	2	-
Network Rail Telecoms	4	1	1	2	3
Digital Railway	1	1	1	1	1
Safety Technical & Engineering	2	3	2	2	2
Government & Corporate Affairs	1	-	-	-	-
Business Services	1	1	1	1	1
Route Asset Management	(1)	-	-	-	(1)
Legal and inquiry	-	-	1	1	-
Group/central	-	-	-	-	-
Pensions	-	-	-	-	-
Insurance	3	3	-	2	1
Redundancy/reorganisation costs	1	-	1	-	-
Staff incentives/Bonus Reduction	(1)	-	-	-	-
Accommodation & Support Recharges	(2)	(1)	(1)	(1)	(1)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	(1)	-	-	-	-
Other	-	(1)	(1)	-	-
Total group/central costs	-	1	(1)	1	-
Total support	**19**	**17**	**15**	**17**	**15**
Total network operations and support costs	**47**	**46**	**43**	**45**	**40**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands

in £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	26	24	(2)	134	126	(8)	28
Signalling	10	8	(2)	51	42	(9)	8
Civils	11	7	(4)	60	36	(24)	17
Buildings	4	2	(2)	18	11	(7)	4
Electrical power and fixed plant	4	7	3	18	27	9	3
Telecoms	2	1	(1)	8	4	(4)	1
Other network operations	5	10	5	42	56	14	6
Asset management services	15	2	(13)	49	11	(38)	10
National Delivery Service	-	3	3	(2)	14	16	(1)
Property	-	-	-	3	1	(2)	-
Group	(2)	(1)	1	(6)	(6)	-	(1)
Total maintenance expenditure	**75**	**63**	**(12)**	**375**	**322**	**(53)**	**75**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. For the control period as a whole, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes.

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

In £m 2018-19 prices unless stated

(3) Signalling – costs are higher than the determination across the control period. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspection and reactive maintenance expenditure. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are lower than the previous year reflecting lower CEFA costs in the current year.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed continuing the pattern of the earlier years of the control period. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – some efficiencies have been made in this category, continuing the trend of the earlier years of the control period. In addition, certain responsibilities have been moved to Asset management services, which helps explain the overspend in that category. Costs are in line with the previous year.

(7) Other network operations – costs for the current year and the entire control period are lower than the regulator's expectation. This is largely due to a transfer of responsibilities from this category into other parts of this statements, such as Asset management services and Track. This provides greater understanding of underlying costs and provide greater accountability to the front-line management teams. The scale of the control period savings also includes extra costs incurred earlier in the control period for extra safety and performance improvement. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. There was significant investment on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

(8) Asset management services – costs are higher than the regulator's assumption this year and across the control period as a whole. This is due a multitude of factors including: transfer of responsibilities from Electrical power and fixed plant as well as from Other network operations, additional activity undertaken by the routes to understand and manage the assets in their area and additional expenditure on specialist contractors and consultants. Costs are higher than the previous year due to higher contractor costs incurred to improve asset knowledge.

(9) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

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

In £m 2018-19 prices unless stated

(10) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, East Midlands

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	60	30	(30)	349	220	(129)	54
Signalling	35	15	(20)	142	160	18	35
Civils	13	28	15	108	138	30	17
Buildings	3	2	(1)	15	24	9	1
Electrical power and fixed plant	7	4	(3)	27	25	(2)	9
Telecoms	2	2	-	10	14	4	1
Wheeled plant and machinery	4	4	-	22	33	11	3
Information Technology	5	4	(1)	34	24	(10)	6
Property	-	-	-	1	1	-	-
Other renewals	15	17	2	38	31	(7)	3
Total renewals expenditure	**144**	**106**	**(38)**	**746**	**670**	**(76)**	**129**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected, with the largest contribution from Track. The extra spend this year accounts for around half of the higher investment in the control period as a whole. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). Expenditure was higher than the previous year, notably the extra investment undertaken on the Thameslink line to improve resilience.

(2) Track – costs are higher than the regulator assumed this year which is mostly due to higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. This contributed to Plain Line unit rates this year being more than twice the value expected in the determination. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is significantly higher than the regulator assumed which is mostly due to higher unit costs than the regulator assumed. As well as the factors noted above the extra like-for-like cost in the control period also include a contribution from High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination, but total costs have remained almost the same. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered for Switches & Crossings and Plain Line which more than offset the steep reduction in High Output activity this year. This year also saw increased costs arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). In addition, programme elongation and design changes on East Nottingham Modular resignalling scheme resulted in higher total costs than the determination assumed. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Level crossing investment was lower than expected due to fewer schemes being identified and being able to be delivered within the funding available for the control period. Costs were consistent with the previous year.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was lower than the regulator anticipated continuing the pattern of earlier years of the control period. This year higher underlying costs have been more than offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is lower than the determination expected with higher like-for-like costs being offset by deferral of activity into control period 6. The higher underlying costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Higher costs have also been caused by externalities, such as damage to the network caused by weather or other events, such as the bridge collapse at Barrow-on-Soar. Spend is lower than the previous year which was in line with the expectation in Network Rail's plans which had a higher proportion of activity concentrated in the earlier years of the control period.

(5) Buildings – expenditure across the control period was lower than the regulator anticipated, with savings due to less work undertaken at managed stations than planned as the limited funding was invested in more front-line renewals activity. Financial performance for the control period was broadly in line with the regulatory expectation.

(6) Electrical power and fixed plant – costs across the control period were higher than the regulator expected which has mostly been driven by higher costs this year. The higher costs this control period is largely caused by additional costs delivering projects as efficiency targets included in the regulator's determination now appear to have been over optimistic. Extra scope has been required on certain projects which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

(7) Telecoms – expenditure across the control period has been lower than the determination, with the most notable category being SISS (Station Information, Surveillance Systems). Earlier in the control period these schemes were deprioritised to conserve funds for front line renewals that would provide a more immediate benefit to passenger performance and safety. The backlog of work is planned to be caught up in control period 6.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment across the control period is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Other renewals includes the following notable items:

a. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure across the control period was less than the regulator assumed due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

b. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

c. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the current year is limited as the schemes are now substantially complete.

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

In £m 2018-19 prices unless stated

d. Other – costs reported in this category mainly relates to resilience works undertaken to improve the resilience of Thameslink part of the Network following commitments made by DfT and Network Rail to improve performance in this area in light of the devasting impact that industrial action had on passengers earlier in the control period as well as a share of the direct support costs to deliver the overall capital programme within the route. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink resilience programme.

Statement 9b: Detailed analysis of renewals expenditure, East Midlands

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	29	7	(22)	113	58	(55)
High output renewal	-	-	-	83	51	(32)
Plain line refurbishment	5	2	(3)	16	7	(9)
S&C renewal	11	14	3	63	59	(4)
S&C refurbishment	3	1	(2)	19	9	(10)
Track non-volume	8	2	(6)	31	19	(12)
Off track	4	4	-	24	17	(7)
Total track	**60**	**30**	**(30)**	**349**	**220**	**(129)**
Signalling						
Full conventional resignalling	18	-	(18)	47	1	(46)
Modular resignalling	-	-	-	30	17	(13)
ERTMS resignalling	-	5	5	-	7	7
Partial conventional resignalling	2	2	-	15	51	36
Targeted component renewal	3	2	(1)	4	6	2
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	1	1	-
Operating strategy other capital expenditure	1	-	(1)	8	8	-
Level crossings	1	-	(1)	7	34	27
Minor works	8	4	(4)	26	23	(3)
Centrally managed costs	2	2	-	4	12	8
Other	-	-	-	-	-	-
Total signalling	**35**	**15**	**(20)**	**142**	**160**	**18**
Civils						
Underbridges	6	15	9	47	68	21
Overbridges	-	3	3	20	11	(9)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	4	-	(4)
Tunnels	2	4	2	11	15	4
Other assets	1	1	-	11	8	(3)
Structures other	-	1	1	(1)	11	12
Earthworks	4	4	-	15	25	10
Other	-	-	-	1	-	(1)
Total civils	**13**	**28**	**15**	**108**	**138**	**30**
Buildings						
Managed stations	-	-	-	-	3	3
Franchised stations	3	1	(2)	9	14	5
Light maint depots	-	-	-	2	2	-
Depot plant	-	-	-	-	2	2
Lineside buildings	-	-	-	1	1	-
MDU buildings	-	1	1	3	2	(1)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**3**	**2**	**(1)**	**15**	**24**	**9**

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

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	4	1	(3)	14	7	(7)
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	1	1
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	2	6	4
Fixed plant	2	2	-	11	11	-
Total electrical power and plant	**7**	**4**	**(3)**	**27**	**25**	**(2)**
Telecoms						
Operational communications	-	-	-	-	1	1
Network	-	1	1	-	2	2
SISS	-	-	-	1	5	4
Projects and other	-	1	1	-	2	2
Non-route capital expenditure	2	-	(2)	9	4	(5)
Total telecoms	**2**	**2**	**-**	**10**	**14**	**4**
Wheeled plant and machinery						
High output	1	-	(1)	7	7	-
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	-	(1)	5	7	2
Materials delivery	-	1	1	4	1	(3)
On track plant	2	1	(1)	3	5	2
Seasonal	-	1	1	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	1	1	2	7	5
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	**4**	**4**	**-**	**22**	**33**	**11**
Information Technology						
IM delivered renewals	5	4	(1)	31	22	(9)
Traffic management	-	-	-	3	2	(1)
Total information technology	**5**	**4**	**(1)**	**34**	**24**	**(10)**
Property						
MDUs/offices	-	-	-	1	1	-
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	**-**	**-**	**-**	**1**	**1**	**-**
Other renewals						
Asset information strategy	1	1	-	11	11	-
Intelligent infrastructure	2	1	(1)	3	6	3
Faster isolations	-	2	2	-	11	11
LOWS	-	-	-	1	1	-
Small plant	1	1	-	1	3	2
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	12	12	-	(1)	(1)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	8	-	(8)
Other	10	-	(10)	13	-	(13)
West Coast	-	-	-	-	-	-
Total other renewals	**15**	**17**	**2**	**38**	**31**	**(7)**
Total renewals	**144**	**106**	**(38)**	**746**	**670**	**(76)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), East Midlands – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, East Midlands

in £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	30	8	(22)	71	61	(10)	10
Access charge supplement Income	(9)	(9)	-	(62)	(62)	-	(10)
Net (income)/cost	**21**	**(1)**	**(22)**	**9**	**(1)**	**(10)**	**-**
Schedule 8							
Performance element income	(2)	-	2	(7)	-	7	(4)
Performance element costs	9	1	(8)	52	2	(50)	6
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**7**	**1**	**(6)**	**45**	**2**	**(43)**	**2**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(15)	(9)	-
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	3	7	3
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	4	1
Reporters fees	-	(1)	(1)
Other industry costs	-	1	1
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(11)**	**2**	**4**

Statement 10: Other information, East Midlands – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, East Midlands – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like costs, as shown in Statement 5a. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption mainly due to the impact of activity in the current year. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events and other externalities in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are noticeably higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Signalling Equivalent Units and Switches & Crossings) and the impact of the delays to the May timetable publication.

Statement 10: Other information, East Midlands – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Costs are higher than the previous year, partly due to the ever-tightening regulatory baselines, meaning Network Rail has to do more each year just to stand still. In addition, the warm weather over the Summer months impacted asset reliability, causing delays. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period consists of two main items: Volume Incentive measure and Business rates, which largely offset. Network Rail is penalised under the Volume incentive measure as traffic growth (largely passenger) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. This is largely offset by higher Business rates than the regulator assumed, including the impact of well-publicised increases that were introduced across the entire economy from April 2017.

Statement 11:

There is no Statement 11 required for East Midlands

Statement 12: Volume incentives, East Midlands

in £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(8)	(2)	16	16	4.1%	1.61	pence per passenger train mile
Passenger farebox (millions)	(2)	0	601	594	3.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	1	1	1.6%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	1	0	1,857	1,751	1.9%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(9)**	**(2)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss under this measure. Throughout the earlier years of the control period traffic growth was in line with the regulatory target. However, this year passenger did not keep pace with the ambitious regulatory expectation. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands

in £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	44	28	36	79	456	39	19	33	84	393
	High Output Renewal	km	-	-	-	-	-	-	-	15	26	577
	Plain line Refurbishment	km	16	5	6	16	375	9	2	2	10	200
	S&C Renewal/Refurbishment	point ends	91	15	17	114	149	48	5	6	89	67
	Track Drainage	lm	1,698	1	1	4,002	0	1	-	-	1,351	-
	Fencing	km	1	-	3	41	73	4	-	4	57	70
	Slab Track	km	-	7	28	-	-	-	-	-	-	-
	Off track	km/No.	2	1	-	2	-	6	-	4	40	100
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**57**	**91**	**-**	**-**	**-**	**26**	**64**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	250	19	51	250	204	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	1	2	4	1	4,000	-	-	-	-	-
	Targeted Component Renewal	SEU	14	3	4	14	286	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	1	1	1	1	1,000	-	-	-	-	-
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**25**	**60**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Civils	Underbridges	m^2	3,008	6	7	4,777	1	458	-	-	458	-
	Overbridges (incl BG3)	m^2	-	-	-	-	-	(36)	-	-	100	-
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	-	2	2	-	-	437	2	6	15,473	0
	Culverts	m^2	297	-	-	297	-	242	-	-	422	-
	Footbridges	m^2	75	-	-	75	-	178	2	3	363	8
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m^2	-	-	-	-	-	275	1	1	321	3
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	491	3	4	71	56	663	3	11	828	13
	EW Drainage	m	-	-	-	-	-	700	-	2	7,630	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**11**	**13**	**-**	**-**	**-**	**8**	**23**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m^2	20	-	-	20	-	-	-	-	-	-
	Platforms (FS)	m^2	670	-	-	670	-	-	-	-	-	-
	Canopies (FS)	m^2	-	-	-	-	-	585	-	-	585	-
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	-	-	-	-	-
	Light Maintenance Depots	m^2	-	-	-	-	-	400	-	1	400	3
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	83	-	-	83	-	-	-	-	-	-
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**

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

in £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
			Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	1	4	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	14	-	1	42	24	13	1	1	42	24
	Signalling Power Cables	km	-	-	-	-	-	14	1	2	16	125
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**1**	**-**	**-**	**-**	**3**	**7**	**-**	**-**
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	163	-	-	413	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**163**	**-**	**-**	**413**	**-**	**-**	**-**	**-**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable increase in the unit cost for conventional plain line renewal and plain line refurbishment. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small. There was an increase in the unit cost for switches and crossings renewals and refurbishments, largely driven by doing a higher proportion of expensive heavy refurbishment in the year. A significant amount of this heavy refurbishment was at Derby.

(3) Civils - In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore it is difficult to do any analysis on the category as a whole.

Statement 1: Summary regulatory financial performance, Kent

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Income							
Grant Income	301	302	(1)	1,646	1,644	2	337
Fixed Income	58	59	(1)	162	163	(1)	29
Variable Income	100	115	(15)	482	532	(50)	92
Other Single Till Income	592	116	476	997	545	452	107
Opex memorandum account	6	-	6	12	-	12	3
Total Income	**1,057**	**592**	**465**	**3,299**	**2,884**	**415**	**568**
Operating expenditure							
Network operations	53	32	(21)	251	180	(71)	54
Support costs	29	40	11	124	211	87	19
Traction electricity, industry costs and rates	75	87	12	342	387	45	67
Network maintenance	111	75	(36)	547	412	(135)	109
Schedule 4	25	14	(11)	91	85	(6)	13
Schedule 8	28	-	(28)	121	1	(120)	8
Total operating expenditure	**321**	**248**	**(73)**	**1,476**	**1,276**	**(200)**	**270**
Capital expenditure							
Renewals	278	220	(58)	1,201	1,116	(85)	181
PR13 enhancement expenditure	256	137	(119)	2,471	2,391	(80)	440
Non PR13 enhancement expenditure	1	-	(1)	9	-	(9)	-
Total capital expenditure	**535**	**357**	**(178)**	**3,681**	**3,507**	**(174)**	**621**
Other expenditure							
Financing costs	237	258	21	949	1,011	62	253
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	**237**	**258**	**21**	**949**	**1,011**	**62**	**253**
Total expenditure	**1,093**	**863**	**(230)**	**6,106**	**5,794**	**(312)**	**1,144**

Statement 1: Summary regulatory financial performance, Kent – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year and across the control period was slightly different to the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income was broadly in line with the determination across the control period Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This year, the positive amount reported is largely due to differences on Network Rail High Speed 1 income compared to the PR13 assumption. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Support costs are lower than the determination this year, with savings across a number of areas. Over the course of the control period there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Kent – continued

In £m 2018-19 prices unless stated

(9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake Network Rail's renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is mostly due to the aforementioned impact of the delays to the May timetable publication. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling, Civils and Buildings) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period and to utilise available resources. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, Kent – continued

In £m 2018-19 prices unless stated

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but the impact of higher Thameslink costs is the dominant factor. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure is lower than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with lower costs this year on the Thameslink scheme. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the determination expected mainly due to lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are lower than the regulatory target mainly due to the same factor. Costs are lower than the previous year as higher levels of debt have been offset by lower interest costs, especially on accreting debt items. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Kent

in £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**5,633**	**5,553**	**80**
Indexation to 2017-18 prices	693	683	10
Opening RAB for the year (2017-18 prices)	**6,326**	**6,236**	**90**
Indexation for the year	202	199	3
Opening RAB (2018-19 prices)	**6,528**	**6,435**	**93**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	257	220	37
PR13 enhancements	248	162	86
Non-PR13 enhancements	(2)	-	(2)
Total enhancements	246	162	84
Amortisation	(227)	(227)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**6,804**	**6,590**	**214**

RAB Regulatory financial position - cumulative, Kent

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**4,260**	**4,977**	**5,604**	**6,156**	**6,528**	**4,260**
Adjustments for the actual capital expenditure outturn in CP4	120	-	-	-	-	120
Renewals	239	231	207	168	257	1,102
PR13 enhancements	562	608	563	430	248	2,411
Non-PR13 enhancements	7	1	-	-	(2)	6
Total enhancements	569	609	563	430	246	2,417
Amortisation	(211)	(213)	(218)	(226)	(227)	(1,095)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-	-
Closing RAB	**4,977**	**5,604**	**6,156**	**6,528**	**6,804**	**6,804**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. This has been partly offset by lower than expected capital investment eligible to be logged up to the RAB.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on the Thameslink programme. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

(6) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

In £m 2018-19 prices unless stated

(7) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator’s assumed RAB and consists of:

a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator’s determination. This additional expenditure was logged up to the RAB in CP4.

b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Kent

in £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**247**	**237**	**202**	**213**	**220**	**1,119**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	39	-	-	-	-	39
Capitalised financing on CP4 deferrals	1	2	2	2	2	9
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**287**	**239**	**204**	**215**	**222**	**1,167**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(110)	(72)	(67)	(79)	(20)	(348)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(6)	(9)	(13)	(16)	(46)
Adjustments for efficient overspend	79	84	95	48	75	381
Capitalised financing on efficient overspend	1	5	9	12	16	43
25% retention of efficient overspend	(19)	(21)	(24)	(12)	(19)	(95)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)	(4)	(10)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	3	1	(1)	2	10
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	-	-	1	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**239**	**231**	**207**	**168**	**257**	**1,102**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	-	-	2	1	3
Adjustment for 25% retention of efficient overspend	21	21	24	11	19	96
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	(1)	(1)	1	1	1	1
Total actual renewals expenditure (see statement 9)	**259**	**251**	**232**	**182**	**278**	**1,202**

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

in £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**585**	**594**	**533**	**430**	**162**	**2,304**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	4	(4)	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	57	44	11	(24)	88
Capitalised financing on Baseline adjustments	-	1	3	4	5	13
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**589**	**648**	**580**	**445**	**143**	**2,405**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(88)	(85)	(142)	(41)	35	(321)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(10)	(15)	(16)	(48)
Adjustments for efficient overspend / (underspend)	-	-	(6)	(6)	3	(9)
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-	-
25% retention of efficient overspend / (underspend)	-	-	2	1	(1)	2
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient overspend	-	-	-	-	-	-
Capitalised financing on efficient overspend	-	-	-	-	-	-
25% retention of efficient overspend	-	-	-	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	73	54	153	45	81	406
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(7)	(21)	(10)	(11)	(60)
Capitalised financing relating to projects with tailored protocols or fixed price	1	4	7	11	14	37
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**562**	**608**	**563**	**430**	**248**	**2,411**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	8	1	-	-	1	10
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(3)	(4)
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)	**7**	**1**	**-**	**-**	**(2)**	**6**
Total enhancements (added to the RAB - see statement 2a)	**569**	**609**	**563**	**430**	**246**	**2,417**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	1	-	-	-	(3)	(2)
Adjustment for 25% retention of efficient overspend	12	8	19	9	14	62
Other Adjustments	-	-	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	3	3	6	59	7	78
Other adjustments	1	-	1	1	-	3
Total actual enhancement expenditure (see statement 3)	**586**	**620**	**589**	**499**	**264**	**2,558**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).

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

In £m 2018-19 prices unless stated

(11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail’s enhancement expenditure variances as noted above.

(16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Kent

in £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	5	2	11	12	1
Stations - Access for All (AfA)	-	13	13	19	16	(3)
Development	-	2	2	3	3	-
Level crossing safety	1	(3)	(4)	11	11	-
Passenger journey improvement	1	(8)	(9)	4	5	1
The strategic rail freight network	-	-	-	-	-	-
Total funds	**5**	**9**	**4**	**48**	**47**	**(1)**
Committed projects						
Crossrail	18	14	(4)	206	294	88
Thameslink	204	122	(82)	1,901	1,702	(199)
Total committed projects	**222**	**136**	**(86)**	**2,107**	**1,996**	**(111)**
HLOS capacity metric schemes						
East Kent resignalling phase 2	-	-	-	57	58	1
New Cross Grid	6	-	(6)	21	16	(5)
Kent traction power supply upgrade	3	-	(3)	34	37	3
Total HLOS capacity metric schemes	**9**	**-**	**(9)**	**112**	**111**	**(1)**
CP4 project rollovers						
Kent power supply upgrade (CP4)	-	(1)	(1)	68	69	1
Package 4: Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**-**	**(1)**	**(1)**	**68**	**68**	**-**
Other projects						
Seven day railway projects	-	(1)	(1)	4	5	1
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	-	-	1	1	-
Depots and stabling	1	(2)	(3)	9	17	8
Income generating property schemes	19	(4)	(23)	167	146	(21)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(45)	-	45
Total other projects	**20**	**(7)**	**(27)**	**136**	**169**	**33**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**256**	**137**	**(119)**	**2,471**	**2,391**	**(80)**
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	6	-	(6)
Total Government sponsored schemes	**1**	**-**	**(1)**	**6**	**-**	**(6)**
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	**-**	**-**	**-**	**3**	**-**	**(3)**
Total Schemes promoted by third parties	**-**	**-**	**-**	**-**	**-**	**-**
Discretionary Investment	**-**	**-**	**-**	**-**	**-**	**-**
Total non PR13 enhancement expenditure	**1**	**-**	**(1)**	**9**	**-**	**(9)**
Total Network Rail funded enhancements (see Statement 1)	**257**	**137**	**(120)**	**2,480**	**2,391**	**(89)**
Third Party PAYG	**7**	**-**	**(7)**	**78**	**-**	**(78)**
Total enhancements (see statement 2b)	**264**	**137**	**(127)**	**2,558**	**2,391**	**(167)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £257m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£264m) less the PAYGO schemes funded by third parties (£7m).

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

In £m 2018-19 prices unless stated

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline, reversing the trend of earlier years of the control period. Across the control period, expenditure was broadly consistent with the Hendy baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period was consistent with the Hendy plan. The largest scheme this year was delivered at Maidstone East.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified, although there was minimal investment in the current year.

c. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the baseline which has resulted in investment across the control period being consistent with the Hendy plan. This included DfT reallocating some of the baseline to elsewhere in the enhancements portfolio this year. The largest investment this year was at Stone crossing.

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. Whilst there was minimal expenditure in the current year, investment across the control period was in line with the Hendy baseline. This included DfT reallocating some of the baseline to elsewhere in the enhancements portfolio this year.

(6) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period in this category is higher the baseline. In the control period higher Thameslink costs have been partly offset by lower Crossrail expenditure. The notable variances between expenditure and the baseline are set out below:

a. Thameslink - the objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and the control period is higher than the baseline. This is mostly due to underperformance and is reflected in the financial performance reported in Statement 5a which has been offset by deferral of activity as parts of the programme have been delayed into CP6. 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). A large part of the investment this year was around London Bridge area to facilitate traffic increases.

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

In £m 2018-19 prices unless stated

b. Crossrail - this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is lower than the regulator's determination across the control period due to higher underlying costs of the work that has been completed which has resulted in financial underperformance (refer to Statement 5) which has been offset by lower levels of work undertaken in this route compared to the regulatory. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

(7) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline but is broadly consistent across the control period. The following notable variances between expenditure and baselines are set out below:

a. East Kent re-signalling phase 2 - this project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure this year was minimal as the project is substantially complete. Costs for the control period are broadly in line with the baseline.

b. New Cross Grid - this project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure across the control period is higher than the baseline as work has been accelerated from control period 6 funding baselines to deliver projects in the current year.

c. Kent traction power supply upgrade - the project will provide the power to facilitate 12 car operation across the route. Expenditure across the control period is lower than the Hendy baseline mainly due to the recognition of financial outperformance (refer to Statement 5a).

(8) CP4 Rollover – Kent Power Supply Upgrade (CP4) – the project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was minimal as the project is substantially complete. Spend for the control period is broadly in line with the Hendy baseline.

(9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline in the control period due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is fairly close to the Hendy assumption. Notable variances to the baseline include:

a. Depots & stabling – the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the control period is less than the baseline. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

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

In £m 2018-19 prices unless stated

b. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year is in higher than the regulator's target which has caused the overspend across the control period. This control period witnessed investment at London Bridge to improve the retail units to coincide with the Thameslink redevelopment works, which included investment in 2018/19.

c. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by the same amount (refer to Statement 2a).

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

b. PAYGO – this year included investment at Kidbrooke station.

Statement 4: Net debt and financial ratios, Kent

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**5,326**	**4,967**	**(359)**	**2,590**	**2,530**	**(60)**
Income						
Grant income	(301)	(302)	(1)	(1,551)	(1,548)	3
Fixed charges	(58)	(59)	(1)	(156)	(157)	(1)
Variable charges	(100)	(115)	(15)	(455)	(503)	(48)
Other single till income	(592)	(116)	476	(969)	(512)	457
Total income	**(1,051)**	**(592)**	**459**	**(3,131)**	**(2,720)**	**411**
Expenditure						
Network operations	53	32	(21)	235	166	(69)
Support costs	29	40	11	116	197	81
Traction electricity, industry costs and rates	75	87	12	325	366	41
Network maintenance	111	75	(36)	516	388	(128)
Schedule 4	25	14	(11)	87	80	(7)
Schedule 8	28	-	(28)	114	-	(114)
Renewals	278	220	(58)	1,128	1,052	(76)
PR13 enhancement	256	162	(94)	2,306	2,148	(158)
Non-PR13 enhancement	1	-	(1)	9	-	(9)
Total expenditure	**856**	**630**	**(226)**	**4,836**	**4,397**	**(439)**
Financing						
Interest expenditure on nominal debt - FIM covered	25	96	71	177	344	167
Interest expenditure on index linked debt - FIM covered	27	36	9	118	142	24
Expenditure on the FIM	27	59	32	148	230	82
Interest expenditure on government borrowing	108	-	(108)	265	-	(265)
Interest on cash balances held by Network Rail	(1)	(4)	(3)	(4)	(11)	(7)
Total interest costs	**186**	**187**	**1**	**704**	**705**	**1**
Accretion on index linked debt - FIM covered	51	71	20	207	306	99
Total financing costs	**237**	**258**	**21**	**911**	**1,011**	**100**
Corporation tax	-	-	-	-	-	-
Other	(86)	-	86	76	45	(31)
Movement in net debt	**(44)**	**296**	**340**	**2,692**	**2,733**	**41**
Closing net debt	**5,282**	**5,263**	**(19)**	**5,282**	**5,263**	**(19)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.49	0.46	0.32	0.37	2.70	0.62
FFO/interest	2.95	2.94	2.65	1.63	3.92	1.84
Net debt/RAB (gearing)	72.6%	76.1%	80.4%	84.2%	77.6%	79.9%
FFO/debt	7.3%	6.2%	5.3%	5.3%	13.8%	6.5%
RCF/debt	4.2%	3.4%	2.4%	2.1%	10.3%	3.0%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 Kent has decreased by £0.1bn this year. This was mainly due to the proceeds of the asset divestment programme generated this year which offset higher than expected capital investment.

(3) Net debt attributable to Kent at 31 March 2019 is broadly in line with the regulator's assumption. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. These extra cash outflows have been partly mitigated by benefits from asset divestment recognised this year.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed this year. This is largely due to lower effective interest rates. The favourable position in the control period is mainly due to the same reason.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower inflation rates this year than the regulator assumed. In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year which reflects the lower inflation rates experienced in the current year.

(13) Other – is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16)Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected Network Rail would not be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The ratio is favourable to the regulator's expectation this year which is mainly due to the impact of the asset divestment proceeds. Removing the impact of this one-off transaction, the ratio for this year is around 0.25, some way below the regulator's determination. This is mainly due to higher Schedule 8, Network operations and Maintenance costs as described elsewhere in these accounts. The ratio is better than the previous year, due to the asset divestment proceeds. Neutralising for the impact of this, the ratio has declined. Whilst the determination expects a decrease, it is faster than assumed. This includes the impact of higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The decline in underlying the ratio is also due to higher net operating costs (including the impact of the performance regime) this year.

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

In £m nominal unless otherwise stated

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

(18) Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is lower than the regulatory comparative. The ratio has benefitted from the asset divestment programme as it reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Adjusting the ratio to remove the impact of this one-off transaction, the ratio is higher than the regulatory assumption. This is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail’s business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. The ratio is favourable to the regulatory expectation. However, this is due to the impact of the aforementioned asset divestment programme. Adjusting for this one-off transaction, the ratio is around 5 per cent, which is lower than the regulator’s assumption. This is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. There is a decline in the underlying ratio this year largely due to the difficulties in achieving the regulator’s efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year, as well as extra Schedule 4 costs.

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

In £m nominal unless otherwise stated

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Kent

in £m 2018-19 prices unless stated

2018-19

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	301	302	(1)	(1)	-	-	-	-
Fixed Income	58	59	(1)	(1)	-	-	-	-
Variable Income	51	53	(2)	-	-	-	(2)	(2)
Other Single Till Income	592	116	476	452	-	-	24	24
Opex memorandum account	6	-	6	7	-	-	(1)	(1)
Total Income	**1,008**	**530**	**478**	**457**	**-**	**-**	**21**	**21**
Expenditure								
Network operations	53	32	(21)	-	-	-	(21)	(21)
Support costs	29	40	11	1	-	-	10	10
Industry costs and rates	24	20	(4)	(2)	-	-	(2)	(2)
Traction electricity	2	5	3	-	-	-	3	3
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	111	75	(36)	-	(3)	-	(33)	(33)
Schedule 4 costs	25	14	(11)	-	-	-	(11)	(11)
Schedule 8 costs	28	-	(28)	-	-	-	(28)	(28)
Renewals	278	220	(58)	2	16	-	(76)	(19)
PR13 Enhancements	256	137	(119)	-	(32)	-	(87)	(14)
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	237	258	21	21	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	**1,044**	**801**	**(243)**	**22**	**(20)**	**-**	**(245)**	**(115)**
Total:			**235**	**479**	**(20)**	**-**	**(224)**	**(94)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(94)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(3)
Under-delivery of train performance requirements (CaSL)	(2)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(5)**
Total financial out / (under) performance to be recognised	**(99)**

Statement 5a: Total financial performance, Kent - continued

in £m 2018-19 prices unless stated

Cumulative

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	1,646	1,644	2		2	-	-	-	-
Fixed Income	162	163	(1)		(1)	-	-	-	-
Variable Income	257	265	(8)		-	-	-	(8)	(8)
Other Single Till Income	997	545	452		440	-	-	12	12
Opex memorandum account	12	-	12		16	-	-	(4)	(4)
Total Income	**3,074**	**2,617**	**457**		**457**	**-**	**-**	**-**	**-**
Expenditure									
Network operations	251	180	(71)		(5)	-	-	(66)	(66)
Support costs	124	211	87		3	-	-	84	84
Industry costs and rates	103	96	(7)		(1)	-	-	(6)	(6)
Traction electricity	13	23	10		-	-	-	10	10
Reporter's fees	1	1	-		-	-	-	-	-
Network maintenance	547	412	(135)		-	(25)	-	(110)	(110)
Schedule 4 costs	91	85	(6)		-	17	-	(23)	(23)
Schedule 8 costs	121	1	(120)		-	-	-	(120)	(120)
Renewals	1,201	1,116	(85)		3	282	-	(370)	(93)
PR13 Enhancements	2,471	2,391	(80)		-	317	-	(397)	(60)
Non PR13 Enhancements	9	-	(9)		-	(9)	-	-	-
Financing Costs	949	1,011	62		62	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**5,881**	**5,527**	**(354)**		**62**	**582**	**-**	**(998)**	**(384)**
Total:			**103**		**519**	**582**	**-**	**(998)**	**(384)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(384)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(50)
Under-delivery of train performance requirements (CaSL)	(17)
Missed milestones for asset management - data quality	(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(3)
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(71)**
Total financial out / (under) performance to be recognised	**(455)**

Statement 5a: Total financial performance, Kent - continued

in £m 2018-19 prices unless stated

	2018-19				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	(49)	(62)	-	13	(225)	(267)	-	42
Total variance not included in total financial performance:	**(49)**	**(62)**	**-**	**13**	**(225)**	**(267)**	**-**	**42**
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Property Divestment	457	-	-	457	457	-	-	457
Total variance not included in total financial performance:	**457**	**-**	**-**	**457**	**457**	**-**	**-**	**457**
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	-	1	1	-	-	1
Release of CP4 long distance financial penalty provision	-	-	-	-	2	-	-	2
Total variance not included in total financial performance:	**1**	**-**	**-**	**1**	**3**	**-**	**-**	**3**
Breakdown of variance not included in total financial performance - Network operations:								
Southern resilience fund	-	-	-	-	(5)	-	-	(5)
Total variance not included in total financial performance:	**-**	**-**	**-**	**-**	**(5)**	**-**	**-**	**(5)**
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction electricity	49	62	-	(13)	225	267	-	(42)
Total variance not included in total financial performance:	**49**	**62**	**-**	**(13)**	**225**	**267**	**-**	**(42)**
Breakdown of variance not included in total financial performance - Renewals:								
Thameslink Resilience Programme	1	-	-	1	1	-	-	1
Investment of CP4 long distance financial penalty	1	-	-	1	2	-	-	2
Total variance not included in total financial performance:	**2**	**-**	**-**	**2**	**3**	**-**	**-**	**3**

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Variable income – across the control period, Network Rail has run fewer trains than expected and so has achieved less Capacity charge income than the regulatory target. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

(3) Other single till income – this year, financial outperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The outperformance recognised in Other single till income this year is mainly the result of higher Property sales income. Across the control period, outperformance has been recorded, largely due to the extra business as usual Property sales income reported this year, which has helped offset lower Property rental income and lower freight income. The lower Property rental income has come from not meeting the targets in the determination which assumed that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. The lower freight income is due to the structural decline of that industry. Other single till income is set out in more detail in Statement 6a.

(4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slower growth in industry Farebox income has been the main driver of the underperformance. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

(5) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM

(6) Support costs – Support costs are, once again, favourable to the determination with savings generated across a number of departments and activities. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

(7) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. It is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

(9) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

(10) Schedule 4 costs – this year costs are greater than the regulator expected which is mainly due to higher like-for-like costs. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events, notably the collapse of coastal defences in Dover which led to closure of the line for a period. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

(11) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Performance this year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

(12)Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(13)PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme and the current year and control period is dominated by underperformance on the Thameslink programme. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(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. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. No financial under or out performance has been recognised this control period against these projects.

(15) Financing costs – financing costs this control period are lower than the regulator expected. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Kent – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2018/19, continuing the trend of earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this control period.

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

in £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(18)	10	(28)	(7)	-	(7)	-	-
Signalling	(4)	16	(20)	(5)	-	(5)	-	-
Civils	(18)	(2)	(16)	(4)	-	(4)	-	-
Buildings	(31)	(19)	(12)	(3)	-	(3)	-	-
Electrical power and fixed plant	1	(3)	4	1	-	1	-	-
Telecoms	(6)	(2)	(4)	(1)	-	(1)	-	-
Wheeled plant and machinery	-	-	-	-	-	-	-	-
IT	(1)	(1)	-	-	-	-	-	-
Property	3	3	-	-	-	-	-	-
Other renewals	16	16	-	-	-	-	-	-
Total	**(58)**	**18**	**(76)**	**(19)**	**-**	**(19)**	**-**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(27)	69	(96)	(24)	-	(23)	(1)	-
Signalling	(7)	69	(76)	(19)	-	(21)	2	-
Civils	(55)	65	(120)	(30)	-	(27)	(3)	-
Buildings	(46)	(6)	(40)	(10)	-	(6)	(4)	-
Electrical power and fixed plant	62	82	(20)	(5)	-	(2)	(3)	-
Telecoms	14	26	(12)	(3)	-	(2)	(1)	-
Wheeled plant and machinery	10	10	-	-	-	-	-	-
IT	(10)	(10)	-	-	-	-	-	-
Property	15	15	-	-	-	-	-	-
Other renewals	(41)	(35)	(6)	(2)	-	-	(2)	-
Total	**(85)**	**285**	**(370)**	**(93)**	**-**	**(81)**	**(12)**	**-**

Where: $C = A - B$

$D = C \times 25\%$

$D = E + F + G$

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year with around 15 per cent of the underperformance foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be significantly lower than the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Signalling financial performance has adversely affected by cost increases on certain large re-signalling schemes, notable East Kent re-signalling scheme where contractor tenders were much higher than the determination assumed. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network. The most notable example is the damage caused to Dover sea wall as a result of storm damage, the restoration of which had a major impact on the financial performance reported in 2015/16.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty.

(6) Electrical power and fixed plant – financial outperformance has been reported for this asset this year which has offset some of the underperformance recognised earlier in the control period. The efficiencies in the current year include process improvements which has simplified and streamlined delivery. The adverse financial performance reported in the control period is largely due to not being able to achieve the regulator's determination targets, which have proved to be over optimistic. ORR expected savings from better contractor procurement and improved asset knowledge leading to scope savings, but these expected benefits have not fully materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA, programme elongation, which has been exacerbated by priority for plant being given to support other programmes, and increases in the programme scope. Extra volumes have been required on certain projects which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

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

In £m 2018-19 prices unless stated

(7) Telecoms – financial underperformance has been reported this year, continuing the trend from earlier years of the control period. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Driver Only operation CCTV and station CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units. Unit costs were also higher on Public Address items due to overly optimistic efficiency assumptions included in the regulator's determination.

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification). The underperformance recognised in the control period is largely from FTN.

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

in £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(82)	(11)	-	(71)	(9)
Kent power supply upgrade	(1)	(1)	-	-	-
Crossrail	(4)	7	-	(11)	(2)
Seven day railway	(1)	(1)	-	-	-
Kent traction power supply upgrade	(3)	(7)	-	4	1
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	13	15	-	(2)	(2)
Other Enhancements	(42)	(35)	-	(7)	(2)
Total	**(120)**	**(33)**	**-**	**(87)**	**(14)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(199)	170	-	(369)	(51)
Kent power supply upgrade	1	(8)	-	9	2
Crossrail	88	124	-	(36)	(9)
Seven day railway	1	-	-	1	-
Kent traction power supply upgrade	3	(1)	-	4	1
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	(3)	(1)	-	(2)	(2)
Other Enhancements	20	24	-	(4)	(1)
Total	**(89)**	**308**	**-**	**(397)**	**(60)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. Higher contractor close out costs for London Bridge also added to the programme expenditure, as did the elongation of the programme. These reasons have led to negative FPM being declared in both the current year and across the control period. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed in CP6 to deliver the remainder of the programme.

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

In £m 2018-19 prices unless stated

(2) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details and unforeseen energy interoperability rules compliance costs. Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

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

Statement 5d: Total financial performance - REBS Performance, Kent

in £m 2018-19 prices unless stated

				Cumulative to 2018-19			
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	62	61	1	-	-	-	1
Capacity charge	106	116	(10)	-	-	-	(10)
Electricity asset utilisation charge	7	7	-	-	-	-	-
Property income	255	223	32	-	-	-	32
Expenditure							
Network operations	251	169	(82)	-	-	-	(82)
Support costs	124	228	104	-	2	-	102
RSSB and BT Police	34	28	(6)	-	-	-	(6)
Network maintenance	547	420	(127)	(24)	-	-	(103)
Schedule 4 costs	91	97	6	29	-	-	(23)
Schedule 8 costs	121	-	(121)	-	-	-	(121)
Renewals	1,201	1,019	(182)	188	-	(277)	(93)
Total REBS performance			**(385)**	**193**	**2**	**(277)**	**(303)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(50)
Under-delivery of train performance requirements (CaSL)	(17)
Missed milestones for asset management - data quality	(1)
Missed ORBIS milestones	(3)
Total adjustment for under delivery of outputs and reduced sustainability	**(71)**
Cumulative performance to end of 2018-19	**(374)**
Less cumulative outperformance recognised up to the end of 2017-18	(299)
Net REBS performance for 2018-19	**(75)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**301**	**302**	**(1)**	**1,646**	**1,644**	**2**	**337**
Franchised track access income							
Fixed charges	**58**	**59**	**(1)**	**162**	**163**	**(1)**	**29**
Variable charges							
Variable usage charge	11	11	-	56	53	3	11
Traction electricity charges	49	62	(13)	225	267	(42)	42
Electrification asset usage charge	2	1	1	7	6	1	2
Capacity charge	21	24	(3)	105	115	(10)	20
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	17	17	-	89	91	(2)	17
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**100**	**115**	**(15)**	**482**	**532**	**(50)**	**92**
Total franchised track access income	**158**	**174**	**(16)**	**644**	**695**	**(51)**	**121**
Total franchised track access and grant income	**459**	**476**	**(17)**	**2,290**	**2,339**	**(49)**	**458**
Other single till income							
Property income	536	61	475	721	271	450	54
Freight income	3	3	-	9	16	(7)	1
Open access income	-	-	-	-	-	-	-
Stations income	36	31	5	172	155	17	36
Facility and financing charges	-	2	(2)	-	5	(5)	-
Depots Income	9	8	1	38	39	(1)	7
Other income	8	11	(3)	57	59	(2)	9
Total other single till income	**592**	**116**	**476**	**997**	**545**	**452**	**107**
Total income	**1,051**	**592**	**459**	**3,287**	**2,884**	**403**	**565**

Statement 6a: Analysis of income, Kent – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is in line with the regulatory assumptions. This is due to higher business as usual property sales being offset by reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail's commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed mainly due to lower electricity traction revenue. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with the largest contribution from additional property sales outside of the scope of the commercial estate divestment.

Statement 6a: Analysis of income, Kent – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was broadly in line with the determination expectation for both the current year and the control pored as a whole. There are some minor differences arising from differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, Kent – continued

In £m 2018-19 prices unless stated

(6) Capacity charge – in the current year this is lower than the determination expected as fewer trains were run, compared to the passenger growth assumptions the regulator included in its determination. The control period result also suffers from performance in 2016/17. As noted in previous year's Regulatory financial statements, the number of trains ran was lower than planned due to industrial action in the South East of England disrupting the journeys of passengers.

(7) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was generally in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was minimal.

(8) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Kent route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income is higher than determination target this year with additional property sales partly mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is lower than the regulator assumed as lower property rental income has been partly offset by extra revenue from property disposals. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved this year.

Statement 6a: Analysis of income, Kent – continued

In £m 2018-19 prices unless stated

(9) Freight Income – this is in line with the determination this year despite the fact that there was much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has significantly decreased this control period. The structural changes facing the freight market over the past five years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the whole control period. The lower electricity income is a factor of market prices and is offset by savings in the electricity costs Network Rail has to pay to provides (as reported in Statement 7a). Income is consistent with the previous year.

(10) Stations income – revenue earned this year is higher than the regulator expected. This is mostly due to extra income earned following the redevelopment of London Bridge station. Whilst this has increased income it has also led to higher running costs for this station and so higher costs in Statement 7a. This is also the main driver behind the higher income earned in this control period as a whole.

(11) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this control period as Network Rail has undertaken less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower.

(12) Other income – this category includes the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges. This year, the former was lower than the regulator's determination. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Over the course of the control period, the adverse variance is less than it should have been, given the assumptions in the determination for the 2015-20 control period. Underlying outperformance has been achieved through enacting efficiency strategies.

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

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	48	59	(11)	212	262	(50)	43
Property sales	488	7	481	509	33	476	11
Adjustment for commercial opex	-	(5)	5	-	(24)	24	-
Total property income	**536**	**61**	**475**	**721**	**271**	**450**	**54**
Freight income							
Freight variable usage charge	1	2	(1)	6	8	(2)	1
Freight traction electricity charges	1	1	-	1	3	(2)	-
Freight electrification asset usage charge	-	-	-	-	1	(1)	-
Freight capacity charge	1	-	1	1	1	-	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	1	(1)	-
Freight other income	-	-	-	1	-	1	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	**3**	**3**	**-**	**9**	**16**	**(7)**	**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	-	15	16	(1)	3
Qualifying expenditure	10	5	5	43	25	18	10
Total managed stations income	13	8	5	58	41	17	13
Franchised stations income							
Long term charge	14	14	-	71	69	2	15
Stations lease income	9	9	-	43	45	(2)	8
Total franchised stations income	23	23	-	114	114	-	23
Total stations income	**36**	**31**	**5**	**172**	**155**	**17**	**36**
Facility and financing charges							
Facility charges	-	2	(2)	-	5	(5)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**-**	**2**	**(2)**	**-**	**5**	**(5)**	**-**
Depots income	**9**	**8**	**1**	**38**	**39**	**(1)**	**7**
Other	**8**	**11**	**(3)**	**57**	**59**	**(2)**	**9**
Total other single till income	**592**	**116**	**476**	**997**	**545**	**452**	**107**

Statement 6b: Analysis of other single till income (unaudited), Kent – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	16	1	78	94	16	17
Signalling shift managers	1	2	1	8	6	(2)	1
Local operations managers	1	1	-	8	7	(1)	1
Controllers	2	3	1	11	14	3	2
Electrical control room operators	3	1	(2)	14	5	(9)	3
Total signaller expenditure	**22**	**23**	**1**	**119**	**126**	**7**	**24**
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	16	13	(3)	3
Managed stations	7	3	(4)	30	16	(14)	6
Performance	2	1	(1)	4	6	2	-
Customer relationship executives	-	1	1	-	3	3	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	8	1	(7)	40	8	(32)	9
Other	1	1	-	4	5	1	1
Operations delivery	1	-	(1)	2	-	(2)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	11	-	(11)	2
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	35	2	(33)	73	12	(61)	22
Other operating income	(26)	(2)	24	(48)	(9)	39	(13)
Total non-signaller expenditure	**31**	**9**	**(22)**	**132**	**54**	**(78)**	**30**
Total network operations expenditure	**53**	**32**	**(21)**	**251**	**180**	**(71)**	**54**
Support costs							
Core support costs							
Human resources	1	4	3	9	25	16	1
Information management	5	5	-	19	28	9	4
Government and corporate affairs	1	1	-	4	8	4	1
Group strategy	1	2	1	4	6	2	-
Finance	2	2	-	8	12	4	2
Business services	2	1	(1)	7	7	-	1
Accommodation	11	12	1	57	62	5	7
Utilities	-	3	3	6	15	9	1
Insurance	1	3	2	11	17	6	2
Legal and inquiry	-	-	-	2	2	-	-
Safety and sustainable development	2	1	(1)	9	4	(5)	1
Strategic sourcing	1	1	-	3	4	1	-
Business change	-	-	-	1	1	-	-
Other corporate functions	2	1	(1)	8	1	(7)	1
Core support costs	**29**	**36**	**7**	**148**	**192**	**44**	**21**
Other support costs							
Asset management services	2	3	1	11	11	-	2
Network Rail telecoms	3	2	(1)	15	14	(1)	2
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(16)	-	16	(1)
Commercial property	5	(1)	(6)	4	(4)	(8)	3
Group costs	(8)	-	8	(38)	(2)	36	(8)
Total other support costs	**-**	**4**	**4**	**(24)**	**19**	**43**	**(2)**
Total support costs	**29**	**40**	**11**	**124**	**211**	**87**	**19**
Traction electricity, industry costs and rates							
Traction electricity	51	67	16	238	290	52	45
Business rates	14	13	(1)	60	61	1	13
British transport police costs	7	5	(2)	30	25	(5)	6
RSSB costs	1	1	-	4	3	(1)	1
ORR licence fee and railway safety levy	1	1	-	8	6	(2)	2
Reporters fees	-	-	-	1	1	-	-
Other industry costs	1	-	(1)	1	1	-	-
Total traction electricity, industry costs and rates	**75**	**87**	**12**	**342**	**387**	**45**	**67**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**157**	**159**	**2**	**717**	**778**	**61**	**140**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are broadly in line with the determination assumption this year. Higher signaller costs have been offset by lower Traction electricity costs and Support costs savings. Total costs are higher than the previous year which includes increased market rates for electricity and some additional Support costs.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs due to the redevelopment of London Bridge which has necessitating extra running costs, which is largely offset by additional income charged to operators (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. There is a notable increase in HQ – other costs compared to the previous year. This includes extra amounts invested in improving the Thameslink part of the network. This work has been funded through the DfT and consequently there is corresponding increase in Other operating income this year.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are favourable to the regulatory target with contributions from a number of areas. Over the course of the control period there have substantial savings well in excess of the regulator's targets.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

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

In £m 2018-19 prices unless stated

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(9) Accommodation – these property expenses were lower than the determination across the control period. Savings were due to Network Rail utilising a cheaper property portfolio than the regulator assumed when it set the determination. There have been savings as a result of the route office relocating from central London whilst there have been savings in the corporate office estate, primarily from relocation of functions away from London to, for example, Milton Keynes. In addition, there were some savings based on lower than planned occupancy levels, allowing parts of the estate to be sublet to other parts of the Network Rail organisation. Costs are higher than the previous year which includes the impact of the Route HQ office relocating to cheaper premises during the year.

(10) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies.

(11) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(12) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

(13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the control period mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.

(14) Commercial Property – net costs in the year are higher than the regulatory estimate which includes a transfer of Railway Heritage Trust activity from Finance to Property, costs associated with the commercial estate divestment and the increasingly difficult regulatory trajectory this year. Costs in the control period are higher than the regulatory assumption due to the aforementioned additional costs in the current year along with a significant amount of doubtful debts recognised ahead of the disposal of large parts of the commercial estate. Net costs in the current year are broadly in line with the previous year.

(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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, the favourable position this control period benefitted from release of commercial claims recognised in earlier years of the control period and additional services provided to Network Rail High Speed. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs, some favourable non-recurring commercial settlements and receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. The credit recognised in Group this year is in line with the previous year.

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

In £m 2018-19 prices unless stated

(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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator’s assumption in the current year and control period mainly due to lower traction electricity costs. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(17) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(18) British Transport Police costs - expenses this control period are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

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

in £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	19	19	19	19	18
MOMS	3	3	3	3	3
Control	2	5	5	5	5
Planning & Performance Staff Costs	2	1	1	2	1
Managed Stations Staff Costs	2	2	2	2	3
Operations Management Staff Costs	-	1	1	1	-
Other	17	16	21	22	23
Total operations & customer services costs	45	47	52	54	53
Total Network Operations	**45**	**47**	**52**	**54**	**53**
Support					
Human resources					
Functional support	-	1	-	1	1
Training (inc Westwood)	2	1	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	-	-	-
Other	1	-	-	-	-
Total human resources	4	3	-	1	1
Information management					
Support	-	-	-	1	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	3	4	3	3	4
Other	-	-	-	-	-
Total information management	3	4	3	4	5
Finance	1	1	2	2	2
Business Change	-	1	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	-	1	-	1
Planning & development	1	1	1	-	1
Safety & compliance	-	-	-	-	-
Other corporate services	1	2	1	1	1
Commercial property	15	11	9	10	16
Infrastructure Projects	(2)	(9)	(2)	(1)	(2)
Route Services	1	1	-	-	1
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	3	2	-	1	-
Network Rail Telecoms	3	5	2	2	3
Digital Railway	1	2	2	1	1
Safety Technical & Engineering	4	3	2	2	3
Government & Corporate Affairs	1	1	-	1	1
Business Services	1	-	3	1	2
Route Asset Management	(2)	-	-	-	-
Legal and inquiry	-	1	1	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	3	3	(1)	2	1
Redundancy/reorganisation costs	2	1	1	1	1
Staff incentives/Bonus Reduction	(2)	-	-	-	-
Accommodation & Support Recharges	(2)	(2)	(2)	(2)	(2)
Commercial claims settlements	-	(11)	-	(7)	-
ORR financial penalty	(2)	-	-	-	-
Other	1	(1)	(2)	-	(7)
Total group/central costs	-	(10)	(4)	(6)	(7)
Total support	**36**	**19**	**21**	**19**	**29**
Total network operations and support costs	**81**	**66**	**73**	**73**	**82**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

in £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	49	26	(23)	227	143	(84)	47
Signalling	17	12	(5)	87	66	(21)	18
Civils	10	10	-	51	55	4	11
Buildings	7	4	(3)	48	21	(27)	9
Electrical power and fixed plant	7	5	(2)	36	28	(8)	6
Telecoms	4	2	(2)	16	11	(5)	3
Other network operations	13	11	(2)	67	61	(6)	13
Asset management services	3	2	(1)	14	13	(1)	2
National Delivery Service	-	3	3	(3)	17	20	(1)
Property	2	1	(1)	9	4	(5)	2
Group	(1)	(1)	-	(5)	(7)	(2)	(1)
Total maintenance expenditure	**111**	**75**	**(36)**	**547**	**412**	**(135)**	**109**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are slightly higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6 which has been partly offset by lower extra reactive maintenance works required this year.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are slightly higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period, on a like-for-like basis, about one-third of the renewals investment anticipated by the regulator has not happened. This has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure this control period is higher than the regulator assumed due to extra reactive maintenance.

(5) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed continuing the trend of the earlier years of the control period. This mainly arises from difficulties achieving the challenging efficiencies included in the determination.

(6) Telecoms – costs are higher that the regulatory assumption this year and in the across the control period as a whole. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.

(7) Other network operations – costs for the control period as a whole is higher than the regulator predicted. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. In the opening years of the control period there was investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category

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

In £m 2018-19 prices unless stated

(8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

(9) Property – expenses across the control period are higher than the determination. The assumptions included in the determination on the level of maintenance works across the offices and commercial estate portfolio has proved too optimistic. This situation was exacerbated by lower Property-related renewals taking place over the course of the control period (as set out in Statement 9a).

(10) Group – the credit balance on this category this control period relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, Kent

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	77	59	(18)	319	292	(27)	65
Signalling	61	57	(4)	249	242	(7)	20
Civils	33	15	(18)	200	145	(55)	32
Buildings	43	12	(31)	112	66	(46)	5
Electrical power and fixed plant	26	27	1	132	194	62	25
Telecoms	12	6	(6)	32	46	14	5
Wheeled plant and machinery	4	4	-	31	41	10	7
Information Technology	7	6	(1)	40	30	(10)	5
Property	1	4	3	7	22	15	2
Other renewals	14	30	16	79	38	(41)	15
Total renewals expenditure	**278**	**220**	**(58)**	**1,201**	**1,116**	**(85)**	**181**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination. The extra spend this year is the main component of the higher investment in the control period as a whole. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods to remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets. In addition, investment was higher this year which included investment in large-scale signalling schemes this year.

(2) Track – costs are higher than the regulator assumed due to higher underlying costs, continuing the trend of the earlier years in the control period, which has been partly mitigated by deferral of activity. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period, only minimal volumes of High output were delivered even though it was a major part of the asset renewal plan at the start of the control period. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the current year was higher than the previous year with notable contributions from off-track works, particularly walkways and access points to facilitate workers getting more efficiently to sites to reduce disruption. This year also saw increases arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure this year was broadly in line with the determination expectation. However, the underlying position was one of higher like-for-like costs offset by deferrals of activity. The position for the control period is similar, with the expenditure similar to the regulator's expectation, but with less outputs being delivered. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are much higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year included significant investment in signalling works at Angerstein and Hither Green.

(4) Civils – expenditure in the year was higher than the regulator anticipated continuing the pattern of earlier years of the control period. The extra costs this year are mainly due to higher costs of delivery. The higher costs in the control period are due to higher delivery costs which have been partly mitigated by a deferral of activity into future years. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The higher like-for-like costs in the control period is partly due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Emergency repair works required in the wake of extreme weather damaging the network (most notably damage to Dover seawall) has also increased the costs of delivery. Spend is in line with the previous year.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was noticeably higher than the regulator anticipated. The additional expenditure this year has resulted in higher overall investment for the control period. The current year included a catch up of previous years under delivery as well as some schemes that were accelerated from control period 6 workbanks, making use of resources available this year. There was investment in Franchised stations, including car park improvements and gates at platform ends to improve security and safety. The higher investment over CP5 was mainly due to higher costs for delivering the required programmes. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure this year was higher than 2017/18 as additional schemes were identified for delivery to utilise resources available in the current year.

(6) Electrical power and fixed plant – costs were in line with the regulator's assumption this year. Costs across the control period were lower than the regulator expected which was due higher underlying costs being more than offset by deferral of activity into control period 6. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised for the control period, despite the efficiencies in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure this year is comparable with 2017/18.

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. The largest category of underspend this control period is SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. The largest area of overspend in the control period has been in Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference. Expenditure is higher than the previous year as part of the SISS underspend was addressed.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption across the control period. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity. These delays have had a knock-on impact upon the Maintenance costs reported this control period (refer to Statement 8a).

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

In £m 2018-19 prices unless stated

(11) Other renewals includes the following notable items:

a. Intelligent infrastructure – expenditure is higher than the regulator assumed this year as some of the underspend experienced earlier in the control period was reversed. The lower investment across the control period arose from delays in programme implementation, including issues caused by resource constraints, re-prioritisation of workbank as well as some technical problems with power interference. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

b. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure across the control period was higher than the regulator assumed due to activity being accelerated from control period 6. As these extra costs related to accelerating work, none of the variance has been included in the assessment of financial performance (Statement 5a).

c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

d. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. There is minimal expenditure in the year as the projects have all been substantially completed. Across the control period, 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.

e. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. This year there was also works to improve the Thameslink part of the network. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, Kent

in £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	22	13	(9)	120	90	(30)
High output renewal	9	15	6	18	33	15
Plain line refurbishment	8	2	(6)	27	16	(11)
S&C renewal	12	14	2	71	64	(7)
S&C refurbishment	6	3	(3)	24	23	(1)
Track non-volume	2	3	1	10	18	8
Off track	18	9	(9)	49	48	(1)
Total track	**77**	**59**	**(18)**	**319**	**292**	**(27)**
Signalling						
Full conventional resignalling	44	6	(38)	185	57	(128)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	1	40	39	3	86	83
Targeted component renewal	-	2	2	1	20	19
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	-	(2)	10	12	2
Level crossings	4	2	(2)	17	23	6
Minor works	10	4	(6)	30	27	(3)
Centrally managed costs	-	3	3	3	17	14
Other	-	-	-	-	-	-
Total signalling	**61**	**57**	**(4)**	**249**	**242**	**(7)**
Civils						
Underbridges	14	3	(11)	72	48	(24)
Overbridges	5	1	(4)	12	6	(6)
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	2	1	8	12	4
Tunnels	2	1	(1)	8	14	6
Other assets	5	2	(3)	34	17	(17)
Structures other	-	1	1	3	15	12
Earthworks	6	5	(1)	63	33	(30)
Other	-	-	-	-	-	-
Total civils	**33**	**15**	**(18)**	**200**	**145**	**(55)**
Buildings						
Managed stations	3	-	(3)	17	13	(4)
Franchised stations	31	11	(20)	78	46	(32)
Light maint depots	-	-	-	2	1	(1)
Depot plant	-	-	-	-	2	2
Lineside buildings	1	-	(1)	6	2	(4)
MDU buildings	8	1	(7)	9	2	(7)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**43**	**12**	**(31)**	**112**	**66**	**(46)**

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

in £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	1	-	(1)	2	-	(2)
Overhead Line	-	-	-	-	-	-
DC distribution	6	19	13	42	113	71
Conductor rail	-	2	2	12	25	13
SCADA	4	2	(2)	14	15	1
Energy efficiency	-	-	-	-	-	-
System capability / capacity	3	-	(3)	18	16	(2)
Other electrical power	4	1	(3)	21	5	(16)
Fixed plant	8	3	(5)	23	20	(3)
Total electrical power and plant	**26**	**27**	**1**	**132**	**194**	**62**
Telecoms						
Operational communications	3	-	(3)	3	9	6
Network	-	-	-	2	5	3
SISS	7	5	(2)	13	26	13
Projects and other	-	-	-	1	2	1
Non-route capital expenditure	2	1	(1)	13	4	(9)
Total telecoms	**12**	**6**	**(6)**	**32**	**46**	**14**
Wheeled plant and machinery						
High output	1	1	-	8	9	1
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	1	2	1
Intervention	1	-	(1)	5	9	4
Materials delivery	-	-	-	3	1	(2)
On track plant	1	1	-	5	6	1
Seasonal	1	-	(1)	1	3	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	1	1	2	8	6
S&C delivery	-	1	1	6	-	(6)
Total wheeled plant and machinery	**4**	**4**	**-**	**31**	**41**	**10**
Information Technology						
IM delivered renewals	7	5	(2)	38	27	(11)
Traffic management	-	1	1	2	3	1
Total information technology	**7**	**6**	**(1)**	**40**	**30**	**(10)**
Property						
MDUs/offices	-	3	3	3	16	13
Commercial estate	1	1	-	4	6	2
Corporate services	-	-	-	-	-	-
Total property	**1**	**4**	**3**	**7**	**22**	**15**
Other renewals						
Asset information strategy	2	-	(2)	12	13	1
Intelligent infrastructure	4	2	(2)	5	7	2
Faster isolations	7	3	(4)	16	13	(3)
LOWS	-	-	-	1	1	-
Small plant	1	1	-	1	4	3
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	24	24	-	-	-
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	41	-	(41)
Other	(1)	-	1	2	-	(2)
West Coast	-	-	-	-	-	-
Total other renewals	**14**	**30**	**16**	**79**	**38**	**(41)**
Total renewals	**278**	**220**	**(58)**	**1,201**	**1,116**	**(85)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Kent – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Kent

in £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	25	14	(11)	91	85	(6)	13
Access charge supplement Income	(17)	(17)	-	(91)	(91)	-	(17)
Net (income)/cost	**8**	**(3)**	**(11)**	**-**	**(6)**	**(6)**	**(4)**
Schedule 8							
Performance element income	(1)	-	1	(6)	-	6	(4)
Performance element costs	29	-	(29)	127	1	(126)	12
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**28**	**-**	**(28)**	**121**	**1**	**(120)**	**8**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(4)	(7)	(2)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	(1)	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	1	1
Reporters fees	-	-	-
Other industry costs	1	-	-
Network Rail HS1	5	17	4
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**3**	**9**	**3**

Statement 10: Other information, Kent – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Kent – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like costs, as shown in Statement 5a. The majority of the higher costs were caused by expenses arising from delays to timetable publication. The delays cause higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the current year being the largest driver of this. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is mostly due to the aforementioned impact of the delays to the May timetable publication.

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Costs are broadly in line with the previous year. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 10: Other information, Kent – continued

In £m 2018-19 prices unless stated

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period includes the impact of the Volume Incentive measure. Traffic growth (largely passenger farebox) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6.

Statement 11:

There is no Statement 11 required for Kent

Statement 12: Volume incentives, Kent

in £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	5	1	22	20	2.4%	1.61	pence per passenger train mile
Passenger farebox (millions)	(10)	(2)	954	986	4.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	0	0	1.7%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	428	487	2.4%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(7)**	**(1)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Kent – continued

In £m 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of slower growth in Passenger farebox income compared to the ambitious increases assumed in the determination, which expected an increase of over 16 per cent across the control period.

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

in £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	33	21	48	128	375	38	25	60	116	517
	High Output Renewal	km	-	-	-	-	-	-	-	-	-	-
	Plain line Refurbishment	km	35	8	23	97	237	14	5	23	83	277
	S&C Renewal/Refurbishment	point ends	88	14	31	274	113	78	15	34	270	126
	Track Drainage	lm	2,065	3	12	25,590	0	10,480	6	12	25,922	0
	Fencing	km	24	2	7	96	73	9	1	7	91	77
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	50	1	7	438	16	50	2	7	428	16
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**49**	**128**	**-**	**-**	**-**	**54**	**143**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	1	-	-	1	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	2	3	4	2	2,000	-	-	-	-	-
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**3**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Civils	Underbridges	m^2	1,139	10	23	1,787	13	1,085	2	4	1,453	3
	Overbridges (incl BG3)	m^2	552	4	5	650	8	-	-	-	-	-
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	392	1	2	392	5	520	-	1	770	1
	Culverts	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges	m^2	373	1	2	373	5	648	2	3	648	5
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m^2	-	-	-	-	-	-	-	-	-	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	35	2	5	301	17	54	6	9	1,675	5
	EW Drainage	m	750	-	1	3,458	0	2,442	1	5	20,216	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**18**	**38**	**-**	**-**	**-**	**11**	**22**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	2,009	-	-	2,009	-
	Buildings (FS)	m^2	-	-	-	-	-	475	-	1	985	1
	Platforms (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Canopies (FS)	m^2	900	-	1	900	1	1,556	1	6	11,252	1
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	-	-	-	-	-	585	2	9	2,485	4
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	-	-	-	-	-
	Light Maintenance Depots	m^2	13,817	-	-	13,817	-	-	-	-	-	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	81	-	2	2,949	1	27	-	1	6,635	0
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**3**	**-**	**-**	**-**	**3**	**17**	**-**	**-**

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

in £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	1	-	10	36	278
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	1	-	-	9	-
	HV cables DC	km	-	-	1	-	-	-	-	-	-	-
	LV cables DC	km	2	1	1	5	200	20	2	19	41	463
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	12	1	1	12	83	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	12	-	2	35	57	4	-	2	35	57
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**2**	**5**	**-**	**-**	**-**	**2**	**31**	**-**	**-**
Telecoms	Customer Information Systems	No.	218	4	4	401	10	-	-	-	-	-
	Public Address	No.	3,413	-	4	3,789	1	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	63	2	2	88	23	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**3,694**	**6**	**10**	**4,278**	**-**	**-**	**-**	**-**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable decrease in the unit cost for conventional plain line renewal and plain line refurbishment. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small.

(3) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been an increase in the unit cost in underbridges in the year. This is due to the fact that in the current year there was a significant proportion of replacement work which is expensive. In the prior year there wasn't any replacement. There has been an increase in the unit cost of tunnels but there was only one project this year (Polhill) and one last year (Sevenoaks). The sample size is too small to do any meaningful analysis.

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

In £m 2018-19 prices unless stated

(4) Electrical Power and Fixed Plant – There has been a decrease in the unit cost for LV cables DC. In the prior year there was one large project that delivered volumes which had been running since the previous control period. This was a relatively expensive project which delivered over half the volumes and thus skewed the unit rate upwards. In the current year there was only two small projects, so it is difficult to any meaningful analysis between the years.

Statement 1: Summary regulatory financial performance, London North East

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	736	740	(4)	3,971	3,961	10	810
Fixed Income	142	143	(1)	396	395	1	68
Variable Income	218	232	(14)	983	1,002	(19)	189
Other Single Till Income	173	129	44	635	582	53	119
Opex memorandum account	8	-	8	31	-	31	6
Total Income	**1,277**	**1,244**	**33**	**6,016**	**5,940**	**76**	**1,192**
Operating expenditure							
Network operations	127	69	(58)	496	391	(105)	96
Support costs	76	68	(8)	352	385	33	64
Traction electricity, industry costs and rates	112	113	1	482	473	(9)	100
Network maintenance	227	169	(58)	1,026	867	(159)	213
Schedule 4	34	57	23	158	224	66	39
Schedule 8	44	1	(43)	72	6	(66)	16
Total operating expenditure	**620**	**477**	**(143)**	**2,586**	**2,346**	**(240)**	**528**
Capital expenditure							
Renewals	450	486	36	2,387	2,387	-	369
PR13 enhancement expenditure	266	(99)	(365)	992	984	(8)	179
Non PR13 enhancement expenditure	10	-	(10)	35	-	(35)	17
Total capital expenditure	**726**	**387**	**(339)**	**3,414**	**3,371**	**(43)**	**565**
Other expenditure							
Financing costs	318	350	32	1,482	1,609	127	350
Corporation tax (received)/paid	-	1	1	-	2	2	-
Total other expenditure	**318**	**351**	**33**	**1,482**	**1,611**	**129**	**350**
Total expenditure	**1,664**	**1,215**	**(449)**	**7,482**	**7,328**	**(154)**	**1,443**

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income is broadly in line with the regulatory expectation in the current year and across the control period. The minor variances that exist arise from differences between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to higher Business rates costs than the regulator assumed. Amounts recognised in the control period are largely from the same source. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2018-19 prices unless stated

(8) Operating expenditure - Support costs are higher than the determination this year, with the largest contributions from Utilities and Accommodation costs. Over the course of the control period there have substantial savings well in excess of the regulator’s targets. Support costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Traction electricity, industry costs and rates are in line with the determination as lower electricity costs (offset by lower recoveries of these costs from operators through income) have been offset by higher Business rates and British Transport Police costs. Across the control period costs are lower as the higher Business rates and British Transport costs have outstripped savings on Traction electricity. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are lower than the determination mainly due to lower delivery of renewals activity that require possessions compared to the regulator’s assumption. Costs for the control period are lower than the regulatory target mainly due to lower renewals delivery of those assets which necessitate possessions. In addition, tight possession management and fewer late possessions have generated some outperformance. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator’s targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) more than offset by a net deferral of activity. Expenditure in the control period is consistent with the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2018-19 prices unless stated

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but with notable contributions from Trans Pennine and IEP programmers. Expenditure is higher than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with higher costs on North Transpennine electrification and power supply upgrade projects being partly offset by less Intercity Express Programme activity. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the determination expected due to lower levels of average debt in the year compounded by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are lower than the regulatory target mainly due to the same factors. Costs are slightly lower than the previous year as higher levels of debt have been offset by lower interest costs, mostly due to lower inflation rates impacting accreting debt instruments. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North East

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**9,070**	**9,440**	**(370)**
Indexation to 2017-18 prices	1,115	1,161	(46)
Opening RAB for the year (2017-18 prices)	**10,185**	**10,601**	**(416)**
Indexation for the year	325	338	(13)
Opening RAB (2018-19 prices)	**10,510**	**10,939**	**(429)**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	399	486	(87)
PR13 enhancements	241	192	49
Non-PR13 enhancements	3	-	3
Total enhancements	244	192	52
Amortisation	(513)	(513)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**10,640**	**11,104**	**(464)**

RAB Regulatory financial position - cumulative, London North East

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**9,679**	**10,289**	**10,502**	**10,523**	**10,510**	**9,679**
Adjustments for the actual capital expenditure outturn in CP4	277	-	-	-	-	277
Renewals	508	559	401	327	399	2,194
PR13 enhancements	277	122	125	156	241	921
Non-PR13 enhancements	19	2	(13)	17	3	28
Total enhancements	296	124	112	173	244	949
Amortisation	(471)	(470)	(492)	(513)	(513)	(2,459)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-	-
Closing RAB	**10,289**	**10,502**	**10,523**	**10,510**	**10,640**	**10,640**

Statement 2a: RAB - Regulatory financial position, London North East – continued

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional investment including under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken.

(4) Renewals – renewals added to the RAB was lower than the regulator assumed this year. This was mostly due efficient overspend, where only where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. In addition, some work was deferred this year compared to the regulatory expectation. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

Statement 2a: RAB - Regulatory financial position, London North East – continued

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjusting the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North East

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**461**	**505**	**478**	**455**	**486**	**2,385**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	18	-	-	-	-	18
Capitalised financing on CP4 deferrals	-	2	1	1	1	5
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**479**	**507**	**479**	**456**	**487**	**2,408**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(35)	(59)	(216)	(248)	(207)	(765)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(10)	(21)	(30)	(66)
Adjustments for efficient overspend	74	136	180	162	164	716
Capitalised financing on efficient overspend	2	6	15	23	29	75
25% retention of efficient overspend	(19)	(34)	(47)	(40)	(41)	(181)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(5)	(8)	(17)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	9	7	2	(1)	5	22
Capitalised financing on efficient overspend through spend to save framework	-	2	1	-	2	5
Retention of efficient overspend through spend to save framework	(2)	(1)	-	1	(1)	(3)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	(1)	(1)
Other adjustments	1	-	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**508**	**559**	**401**	**327**	**399**	**2,194**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(4)	2	7	(1)
Adjustment for 25% retention of efficient overspend	22	35	47	39	42	185
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	3	1	1	2	2	9
Total actual renewals expenditure (see statement 9)	**532**	**590**	**445**	**370**	**450**	**2,387**

Statement 2b: RAB - reconciliation of expenditure, London North East - continued

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**317**	**339**	**266**	**380**	**192**	**1,494**
Adjustments to the PR13 determination	-	-	-	-	-	-
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	94	(93)	-	-	-	1
Capitalised financing on CP4 deferrals	2	2	-	-	-	4
Baseline adjustments	-	(261)	58	(17)	(291)	(511)
Capitalised financing on Baseline adjustments	-	(5)	(9)	(9)	(17)	(40)
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**413**	**(18)**	**315**	**354**	**(116)**	**948**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(137)	140	(188)	(178)	366	3
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(3)	(3)	(12)	(9)	(30)
Adjustments for efficient overspend / (underspend)	4	(4)	1	(12)	3	(8)
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	1	1
25% retention of efficient overspend / (underspend)	(1)	1	1	2	(1)	2
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	9	(1)	4	(4)	8
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(2)	-	(2)	1	(3)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**277**	**122**	**125**	**156**	**241**	**921**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	20	1	(14)	17	9	33
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	(1)	(7)	(9)
Capitalised financing on non-PR13 enhancements expenditure	-	1	1	1	1	4
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**19**	**2**	**(13)**	**17**	**3**	**28**
Total enhancements (added to the RAB - see statement 2a)	**296**	**124**	**112**	**173**	**244**	**949**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	1	5	12	21	24	63
Adjustment for 25% retention of efficient overspend	1	1	(1)	1	8	10
Other Adjustments	3	-	-	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	39	63	64	68	66	300
Other adjustments	1	1	-	-	-	2
Total actual enhancement expenditure (see statement 3)	**341**	**194**	**187**	**263**	**342**	**1,327**

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2018-19 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 provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail’s investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Signalling projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2018-19 prices unless stated

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

(12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2018-19 prices unless stated

(17) Non-PR13 enhancements – not all the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, London North East

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	61	(12)	(73)	141	136	(5)
Stations - National Station Improvement Programme (NSIP)	2	1	(1)	7	8	1
Stations - Access for All (AfA)	1	5	4	13	11	(2)
Development	3	5	2	19	21	2
Level crossing safety	8	4	(4)	12	12	-
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	6	9	3	19	23	4
Total funds	**81**	**12**	**(69)**	**211**	**211**	**-**
Committed projects						
Northern Hub	1	(16)	(17)	16	-	(16)
IEP Programme	40	(32)	(72)	239	251	12
North Trans Pennine electrification East	111	(47)	(158)	275	287	12
Micklefield - Selby electrification	-	-	-	-	-	-
Thameslink	-	2	2	73	51	(22)
Total committed projects	**152**	**(93)**	**(245)**	**603**	**589**	**(14)**
Named schemes						
The Electric Spine						
DfT Sofa Amount	-	-	-	2	-	(2)
Total Electric Spine projects	**-**	**-**	**-**	**2**	**-**	**(2)**
Yorkshire						
Huddersfield station capacity improvement	-	-	-	(1)	-	1
Total Yorkshire Projects	**-**	**-**	**-**	**(1)**	**-**	**1**
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	-	-	-	-	-
Stevenage and Gordon Hill turnbacks	5	2	(3)	8	9	1
Bradford Mill Lane capacity	-	(1)	(1)	-	3	3
Leeds station capacity	-	-	-	-	-	-
LNE routes traction power supply upgrade	26	(1)	(27)	34	33	(1)
Total HLOS capacity metric schemes	**31**	**-**	**(31)**	**42**	**45**	**3**
CP4 Project Rollovers						
Capacity relief to the ECML	1	(1)	(2)	91	84	(7)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
Station Security	1	-	(1)	-	1	1
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**2**	**(1)**	**(3)**	**91**	**85**	**(6)**
Other projects						
Seven day railway projects	-	1	1	24	23	(1)
ERTMS Cab fitment	-	(16)	(16)	22	25	3
R&D allowance	-	(1)	(1)	2	2	-
Depots and stabling	-	(1)	(1)	-	(1)	(1)
Income generating property schemes	-	-	-	14	5	(9)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(18)	-	18
Total other projects	**-**	**(17)**	**(17)**	**44**	**54**	**10**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**266**	**(99)**	**(365)**	**992**	**984**	**(8)**

Statement 3: Analysis of enhancement capital expenditure, London North East - continued

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
OCSLNE SCPF Newcastle Station	-	-	-	7	-	(7)
Tram Train Project	8	-	(8)	17	-	(17)
Other government sponsored schemes	(1)	-	1	(2)	-	2
Total Government sponsored schemes	**7**	**-**	**(7)**	**22**	**-**	**(22)**
Network Rail spend to save schemes						
Mountfield	-	-	-	5	-	(5)
Other spend to save schemes	2	-	(2)	2	-	(2)
Total Network Rail spend to save schemes	**2**	**-**	**(2)**	**7**	**-**	**(7)**
Total Schemes promoted by third parties	**-**	**-**	**-**	**-**	**-**	**-**
Discretionary Investment	**1**	**-**	**(1)**	**6**	**-**	**(6)**
Total non PR13 enhancement expenditure	**10**	**-**	**(10)**	**35**	**-**	**(35)**
Total Network Rail funded enhancements (see Statement 1)	**276**	**(99)**	**(375)**	**1,027**	**984**	**(43)**
Third Party PAYG	**66**	**-**	**(66)**	**300**	**-**	**(300)**
Total enhancements (see statement 2b)	**342**	**(99)**	**(441)**	**1,327**	**984**	**(343)**

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £276m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£342m) less the PAYGO schemes funded by third parties (£66m).

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2018-19 prices unless stated

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline which has brought the control period total in line with the Hendy baseline. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure across the control period is higher than the baseline as extra work has been completed to the network in this area ahead of CP6. Expenditure this year included work on Werrington Grade separation and Kings Cross re-modelling.

b. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period is broadly in line with the Hendy expectation. Investment this year included work at Doncaster and Cleethorpes stations.

c. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified.

d. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is slightly lower than the baseline which has resulted in a slight underspend across the control period on this fund. The largest project delivered this year was at Leeds station.

e. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the baseline which has meant that across the control period investment is broadly consistent with the Hendy baseline.

f. The Strategic Rail Freight Network - the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Investment in the current year is lower than the baseline which has resulted in a slight underspend across the control period on this scheme. The main project delivered this year was improvements in the Immingham to Doncaster route.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2018-19 prices unless stated

(6) PR13 funded schemes – Committed Projects - overall expenditure for the year is higher the baseline, with major contributions from the Trans Pennine and IEP programmes. Expenditure across the control period is slightly higher than the Hendy baseline. The notable variances between expenditure and the baseline 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 in the control period are higher than the baseline which includes higher underlying programme costs partly mitigated by acceleration of deferral of activity from CP6. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Expenditure this year includes work in the Leeds area.

b. IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure in the year is higher than the baseline but remains behind for the control period. As noted in last year's Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme.

c. North Trans Pennine electrification East - this programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. Investment across the control period is broadly in line with the Hendy baseline for CP5. In the current year, DfT set a new baseline for the programme which has resulted in the negative baseline included for 2018/19. Notable schemes this year include extensive work in the Leeds area.

d. Thameslink - the objective of this programme is to increase the frequency with which services could operate on this part of the network. Whilst there has been minimal expenditure this year, there has been higher investment across the control period compared to the baseline. About one-third of this variance is due to underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a). The remaining difference is largely due to variances in where the programme costs have been incurred compared to the assumption in the regulator's determination.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2018-19 prices unless stated

(7) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline resulting in a catch up of the underspend witnessed in the earlier years of the control periods. The following notable variances between expenditure and baselines are set out below:

a. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.

b. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

c. London North East routes traction power supply upgrade - this project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. Expenditure across the control period is in line with the Hendy baseline Delivery of milestones have been re-phased and agreed with DfT.

(8) Other CP4 Rollover – this mostly consists of the Capacity relief to ECML (East Coast Main Line) project. The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

(9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:

a. Seven day railway projects – expenditure in the year is lower than the baseline, bringing the control period to date position in line with the Hendy target. There was minimal activity on this programme in the current year as it has now been substantially completed.

b. ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure this year is higher than the baseline mainly due to DfT reallocating the CP5 enhancements portfolio to other programmes due to delays in the programme. These delays are allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy. Expenditure across the control period is slightly lower than the Hendy baseline.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2018-19 prices unless stated

c. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. There was no expenditure in the current year but investment in the control period to date has been higher than the regulator's target. Expenditure in the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns.

d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by a corresponding amount (refer to Statement 2a).

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programme in this category are Tram Train project – a project that aims to provide infrastructure capability enhancements to enable the pilot operation of Tram Train vehicles in the UK.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. Discretionary investment – expenditure in the control period relates to various projects that the management team in London North East have decided to undertake to deliver improvements to the railway in that route, but for which there is no funding allowance. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

d. PAYGO – this year, major investment in this category included contributions to IEP Doncaster depot power programme and the Immingham to Doncaster freight line improvement programme. This year also includes third party contributions to a new depot.

Statement 4: Net debt and financial ratios, London North East

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**6,970**	**7,451**	**481**	**5,886**	**5,746**	**(140)**
Income						
Grant income	(736)	(740)	(4)	(3,742)	(3,738)	4
Fixed charges	(142)	(143)	(1)	(377)	(377)	-
Variable charges	(218)	(232)	(14)	(927)	(949)	(22)
Other single till income	(173)	(129)	44	(602)	(554)	48
Total income	**(1,269)**	**(1,244)**	**25**	**(5,648)**	**(5,618)**	**30**
Expenditure						
Network operations	127	69	(58)	468	366	(102)
Support costs	76	68	(8)	334	360	26
Traction electricity, industry costs and rates	112	113	1	456	452	(4)
Network maintenance	227	169	(58)	973	817	(156)
Schedule 4	34	57	23	148	212	64
Schedule 8	44	1	(43)	70	5	(65)
Renewals	450	486	36	2,241	2,255	14
PR13 enhancement	266	192	(74)	935	1,406	471
Non-PR13 enhancement	10	-	(10)	31	-	(31)
Total expenditure	**1,346**	**1,155**	**(191)**	**5,656**	**5,873**	**217**
Financing						
Interest expenditure on nominal debt - FIM covered	34	132	98	294	544	250
Interest expenditure on index linked debt - FIM covered	36	48	12	190	230	40
Expenditure on the FIM	36	80	44	241	363	122
Interest expenditure on government borrowing	145	-	(145)	386	-	(386)
Interest on cash balances held by Network Rail	(1)	(5)	(4)	(7)	(17)	(10)
Total interest costs	**250**	**255**	**5**	**1,104**	**1,120**	**16**
Accretion on index linked debt - FIM covered	68	95	27	312	489	177
Total financing costs	**318**	**350**	**32**	**1,416**	**1,609**	**193**
Corporation tax	-	1	1	-	2	2
Other	(8)	-	8	47	101	54
Movement in net debt	**387**	**262**	**(125)**	**1,471**	**1,967**	**496**
Closing net debt	**7,357**	**7,713**	**356**	**7,357**	**7,713**	**356**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	1.11	0.96	0.85	0.59	0.54	0.99
FFO/interest	2.95	2.94	2.65	2.65	2.60	3.00
Net debt/RAB (gearing)	67.8%	67.6%	67.8%	68.4%	69.1%	69.5%
FFO/debt	10.4%	9.5%	9.6%	9.2%	8.8%	9.9%
RCF/debt	7.1%	6.5%	6.4%	5.7%	5.4%	6.6%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 London North East 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. Despite the high levels of investment this year, receipts from the asset divestment programme generated helped offset the total debt.

(3) Net debt attributable to London North East at 31 March 2019 is £0.4bn lower than the regulator assumed. This is mostly due to reduced investment in enhancement schemes compared to the regulatory assumption for control period 5.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed this year. This is largely due to lower levels of average net debt during the year compared to the regulatory expectation which has been compounded by lower effective interest rates. The favourable position in the control period is mainly due to lower levels of average debt in the control period arising from less enhancements investment than the regulator assumed in their original determination.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(13) Other – is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. The regulators expectation for this year was that Network Rail would not be able to achieve this. However, despite the positive impact that the asset divestment programme had in the year on the ratio, the 2018/19 result was behind expectation. This variance is mainly due to higher Schedule 8, Network operations and Maintenance costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The ratio is broadly in line with the previous year, although once the impact of the asset divestment is removed, the ratio has declined. This is mostly due to extra Schedule 8 and Network operations costs this year.

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

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is broadly in line with the regulatory comparative. The ratio has benefitted from the asset divestment programme as it reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. There is a decline in the underlying ratio compared to the previous year, but this been flattered by the extra income generated from the asset divestment programme. The underlying decline this year is due to extra Schedule 8 and Network operations costs.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, London North East

In £m 2018-19 prices unless stated

2018-19

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	736	740	(4)	(4)	-	-	-	-
Fixed Income	142	143	(1)	(1)	-	-	-	-
Variable Income	167	168	(1)	-	-	-	(1)	(1)
Other Single Till Income	173	129	44	56	-	-	(12)	(12)
Opex memorandum account	8	-	8	12	-	-	(4)	(4)
Total Income	**1,226**	**1,180**	**46**	**63**	**-**	**-**	**(17)**	**(17)**
Expenditure								
Network operations	127	69	(58)	-	-	-	(58)	(58)
Support costs	76	68	(8)	-	-	-	(8)	(8)
Industry costs and rates	62	47	(15)	(12)	-	-	(3)	(3)
Traction electricity	(1)	2	3	-	-	-	3	3
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	227	169	(58)	-	(8)	-	(50)	(50)
Schedule 4 costs	34	57	23	-	23	-	-	-
Schedule 8 costs	44	1	(43)	-	-	-	(43)	(43)
Renewals	450	486	36	3	200	-	(167)	(42)
PR13 Enhancements	266	(99)	(365)	-	(359)	-	(6)	(6)
Non PR13 Enhancements	10	-	(10)	-	(9)	-	(1)	(1)
Financing Costs	318	350	32	32	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	(1)	-	2	2
Total Expenditure	**1,613**	**1,151**	**(462)**	**23**	**(154)**	**-**	**(331)**	**(206)**
Total:			**(416)**	**86**	**(154)**	**-**	**(348)**	**(223)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(223)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(5)
Under-delivery of train performance requirements (CaSL)	-
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(5)**
Total financial out / (under) performance to be recognised	**(228)**

Statement 5a: Total financial performance, London North East - continued

In £m 2018-19 prices unless stated

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
					Cumulative				
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	3,971	3,961	10		10	-	-	-	-
Fixed Income	396	395	1		1	-	-	-	-
Variable Income	784	764	20		-	-	-	20	20
Other Single Till Income	635	582	53		56	-	-	(3)	(3)
Opex memorandum account	31	-	31		41	-	-	(10)	(10)
Total Income	**5,817**	**5,702**	**115**		**108**	**-**	**-**	**7**	**7**
Expenditure									
Network operations	496	391	(105)		-	-	-	(105)	(105)
Support costs	352	385	33		7	-	-	26	26
Industry costs and rates	278	227	(51)		(41)	-	-	(10)	(10)
Traction electricity	3	6	3		-	-	-	3	3
Reporter's fees	2	2	-		-	-	-	-	-
Network maintenance	1,026	867	(159)		-	(31)	-	(128)	(128)
Schedule 4 costs	158	224	66		-	58	-	8	8
Schedule 8 costs	72	6	(66)		-	-	-	(66)	(66)
Renewals	2,387	2,387	-		4	715	-	(719)	(181)
PR13 Enhancements	992	984	(8)		-	(5)	-	(3)	(3)
Non PR13 Enhancements	35	-	(35)		-	(33)	-	(2)	(2)
Financing Costs	1,482	1,609	127		127	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	2	2		-	-	-	2	2
Total Expenditure	**7,283**	**7,090**	**(193)**		**97**	**704**	**-**	**(994)**	**(456)**
Total:			**(78)**		**205**	**704**	**-**	**(987)**	**(449)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(449)**
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)	(2)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(6)
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(25)**
Total financial out / (under) performance to be recognised	**(474)**

Statement 5a: Total financial performance, London North East - continued

In £m 2018-19 prices unless stated

	2018-19				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	(51)	(64)	-	13	(199)	(238)	-	39
Total variance not included in total financial performance:	**(51)**	**(64)**	**-**	**13**	**(199)**	**(238)**	**-**	**39**
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Property Divestment	56	-	-	56	56	-	-	56
Total variance not included in total financial performance:	**56**	**-**	**-**	**56**	**56**	**-**	**-**	**56**
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	-	-	-	-	2	-	-	2
Release of CP4 long distance financial penalty provision	-	-	-	-	5	-	-	5
Total variance not included in total financial performance:	**-**	**-**	**-**	**-**	**7**	**-**	**-**	**7**
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction electricity	51	64	-	(13)	199	238	-	(39)
Total variance not included in total financial performance:	**51**	**64**	**-**	**(13)**	**199**	**238**	**-**	**(39)**
Breakdown of variance not included in total financial performance - Renewals:								
Thameslink Resilience Programme	3	-	-	3	3	-	-	3
Investment of CP4 long distance financial penalty	-	-	-	-	1	-	-	1
Total variance not included in total financial performance:	**3**	**-**	**-**	**3**	**4**	**-**	**-**	**4**

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

(3) Variable income – across the control period, Network Rail has earned extra revenue by responding to passenger demand and so generated outperformance through extra Capacity charge income compared to the regulatory target. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The underperformance recognised in Other single till income this year is mainly the result of the continued decline in freight traffic (largely driven by demand for coal transportation and slower growth of compensating transportation markets compared to the regulatory assumption). Lower freight income is also the main driver of the underperformance in the control, which has been partly offset from offering enhanced services to operators. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slower freight growth owing structural changes in the industry and alternative transportation markets not expanding as fast as the regulator assumed have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

(6) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Finally, this year has been impacted by the settlement of commercial claims as the control period closes out. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – this year Support costs are higher than the determination mainly due to higher Utilities and Accommodation costs. Across the control period, however, Support costs have outperformed the regulatory expectation. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

In £m 2018-19 prices unless stated

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

(10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher due to the impact of prolonger hot periods in the summer which necessitated asset repairs. This year also has additional costs as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

(11) Schedule 4 costs – this year costs are lower than the regulator expected which is mainly due to undertaking fewer renewals activities which necessitate possession. Underlying costs were in line with the determination despite extra costs incurred as result of delays to timetable publication. These delays result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These costs were offset by tight possession management, efficient workbank packaging and the route taking fewer late-notice possessions. Financial outperformance has been reported for the control period for the reasons noted above. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

(12) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Performance this year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

(14) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from IEP programme. Across the control period Thameslink has been the major driver of the underperformance reported. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. 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 this control period are lower than the regulator expected mainly due to lower average net debt levels compared to the assumption in the regulators' PR13 arising from delays in capital investment. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, London North East – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Whilst targets for operators in London North East were achieved in 2018/19, they were missed in earlier years of the control period and consequently an adjustment is included in the Cumulative control period 5 result. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

Statement 5b: Total financial performance - renewals variance analysis, London North East

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(11)	61	(72)	(18)	-	(18)	-	-
Signalling	21	65	(44)	(11)	-	(11)	-	-
Civils	17	41	(24)	(6)	-	(7)	1	-
Buildings	(23)	(7)	(16)	(4)	-	(2)	(2)	-
Electrical power and fixed plant	(11)	(3)	(8)	(2)	-	(1)	(1)	-
Telecoms	(5)	(5)	-	-	-	-	-	-
Wheeled plant and machinery	-	-	-	-	-	-	-	-
IT	(7)	(7)	-	-	-	-	-	-
Property	1	1	-	-	-	-	-	-
Other renewals	54	57	(3)	(1)	-	(1)	-	-
Total	**36**	**203**	**(167)**	**(42)**	**-**	**(40)**	**(2)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(161)	175	(336)	(84)	-	(85)	1	-
Signalling	209	385	(176)	(44)	-	(43)	(1)	-
Civils	(30)	94	(124)	(31)	-	(26)	(5)	-
Buildings	(15)	13	(28)	(7)	-	(2)	(5)	-
Electrical power and fixed plant	(31)	13	(44)	(11)	-	(8)	(3)	-
Telecoms	(5)	(1)	(4)	(1)	-	-	(1)	-
Wheeled plant and machinery	36	36	-	-	-	-	-	-
IT	(25)	(25)	-	-	-	-	-	-
Property	(2)	(2)	-	-	-	-	-	-
Other renewals	24	31	(7)	(3)	-	(1)	(2)	-
Total	**-**	**719**	**(719)**	**(181)**	**-**	**(165)**	**(16)**	**-**

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

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year some of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Of the underperformance experienced this control period around one-third was expected in the CP5 Business Plan. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network. The unit rates on these types of jobs are higher than usual given the time critical nature of the incidents.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Additional scope has been delivered as part of the London North East's efforts to combat network trespass and suicide as well as due to worse than expected asset condition, most notably timber platforms and at Worksop footbridge.

(6) Electrical power and fixed plant – as in previous years of the control period, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. Extra scope has been required in light of a higher number of overhead line damage caused by external events.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2018-19 prices unless stated

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period includes notable contributions from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North East

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	(72)	(66)	-	(6)	(2)
Thameslink	2	(2)	-	4	1
Northern Hub	(17)	(17)	-	-	(1)
Seven day railway projects	1	1	-	-	1
Capacity relief to the ECML	(2)	(3)	-	1	-
T12 Enhancements	-	-	-	-	-
Electric Spine	-	-	-	-	-
East coast connectivity	(73)	(68)	-	(5)	(5)
Stations - Access for All (AfA)	4	6	-	(2)	(2)
Other Enhancements	(218)	(219)	-	1	1
Total	**(375)**	**(368)**	**-**	**(7)**	**(7)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	12	(7)	-	19	5
Thameslink	(22)	(14)	-	(8)	(2)
Northern Hub	(16)	(14)	-	(2)	-
Seven day railway projects	(1)	(2)	-	1	1
Capacity relief to the ECML	(7)	1	-	(8)	(2)
T12 Enhancements	-	-	-	-	-
Electric Spine	(2)	(2)	-	-	-
East coast connectivity	(5)	-	-	(5)	(5)
Stations - Access for All (AfA)	(2)	-	-	(2)	(2)
Other Enhancements	-	-	-	-	-
Total	**(43)**	**(38)**	**-**	**(5)**	**(5)**

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend.

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

In £m 2018-19 prices unless stated

(2) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Savings this control period have arisen from: simplifying layout at Newcastle which has reduced the complexity and so cost of the works, substituting contractor delivery with underutilised local works delivery team for certain parts of the programme, lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan.

(3) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.

(4) East Coast Connectivity – although funding available through this ring-fenced fund is limited, Network Rail has made the decision to invest in improvement schemes to facilitate improvements in this part of the network. In line with the Regulatory Accounting Guidelines (June 2017) none of the overspend in this category is eligible for RAB addition and so is included at 100 per cent when assessing financial underperformance.

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

Statement 5d: Total financial performance - REBS performance, London North East

In £m 2018-19 prices unless stated

	Cumulative to 2018-19						
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	238	283	(45)	-	-	-	(45)
Capacity charge	431	403	28	-	-	-	28
Electricity asset utilisation charge	14	15	(1)	-	-	-	(1)
Property income	175	161	14	-	-	-	14
Expenditure							
Network operations	496	374	(122)	-	-	-	(122)
Support costs	352	387	35	-	5	-	30
RSSB and BT Police	80	69	(11)	-	-	-	(11)
Network maintenance	1,026	886	(140)	(26)	-	-	(114)
Schedule 4 costs	158	211	53	45	-	-	8
Schedule 8 costs	72	-	(72)	-	-	-	(72)
Renewals	2,387	2,348	(39)	680	-	(538)	(181)
Total REBS performance			**(300)**	**699**	**5**	**(538)**	**(466)**

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)	(2)
Missed milestones for asset management - data quality	-
Missed ORBIS milestones	(6)
Total adjustment for under delivery of outputs and reduced sustainability	**(25)**
Cumulative performance to end of 2018-19	**(491)**
Less cumulative outperformance recognised up to the end of 2017-18	(268)
Net REBS performance for 2018-19	**(223)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**736**	**740**	**(4)**	**3,971**	**3,961**	**10**	**810**
Franchised track access income							
Fixed charges	**142**	**143**	**(1)**	**396**	**395**	**1**	**68**
Variable charges							
Variable usage charge	32	34	(2)	153	164	(11)	29
Traction electricity charges	51	64	(13)	199	238	(39)	38
Electrification asset usage charge	3	3	-	14	14	-	3
Capacity charge	84	82	2	420	390	30	82
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	48	49	(1)	197	196	1	37
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**218**	**232**	**(14)**	**983**	**1,002**	**(19)**	**189**
Total franchised track access income	**360**	**375**	**(15)**	**1,379**	**1,397**	**(18)**	**257**
Total franchised track access and grant income	**1,096**	**1,115**	**(19)**	**5,350**	**5,358**	**(8)**	**1,067**
Other single till income							
Property income	94	40	54	242	172	70	41
Freight income	19	32	(13)	98	132	(34)	17
Open access income	13	13	-	65	62	3	13
Stations income	33	31	2	166	156	10	33
Facility and financing charges	1	4	(3)	5	15	(10)	1
Depots Income	12	8	4	54	42	12	13
Other income	1	1	-	5	3	2	1
Total other single till income	**173**	**129**	**44**	**635**	**582**	**53**	**119**
Total income	**1,269**	**1,244**	**25**	**5,985**	**5,940**	**45**	**1,186**

Statement 6a: Analysis of income, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail’s commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed mainly due to the items noted above, namely lower traction electricity income and freight revenue. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income remains higher than 2017/18 with the largest contributions from higher electricity traction income and higher Schedule 4 access charge supplements.

Statement 6a: Analysis of income, London North East – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – variances between the fixed charge income received and the regulatory target has been the result of differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Variable usage income - income from variable usage charges paid by train operators is lower than the determination expected, continuing the trend from the previous year. Although income is higher than the previous year, the regulatory expectation is for continued growth in this area and so the targets get harder each year. The lower income earned through Variable usage income is more than offset by higher Capacity charge due to differences between the regulatory expectation of how variable track access income would be earned and what has transpired.

Statement 6a: Analysis of income, London North East – continued

In £m 2018-19 prices unless stated

(6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

(7) Capacity charge – once more income in the current year is favourable to the determination. This is because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. Income is slightly higher than the previous year due to traffic growth. The extra income earned through Capacity charges is partly offset by lower Variable usage charges due to differences between the regulatory expectation of how variable track access income would be earned and what has transpired.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was broadly in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was higher than the previous year, which was in line with the regulator's assumption.

(9) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to London North East route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income is consistent with the determination target this year. Income across the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is higher than the regulator assumed mainly due to extra property rental income. This has benefitted from offering more desirable properties at Kings Cross and Leeds stations. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was marginally lower than the previous year due to some additional disposals being achieved this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.

Statement 6a: Analysis of income, London North East – continued

In £m 2018-19 prices unless stated

(10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The regulatory determination assumed a significant increase in materials transported to the Drax power station, but this has not materialised, exacerbating revenue shortfalls. The structural changes facing the freight market over the past few years has driven the adverse performance to the regulator's assumption across the lower control period. Revenue is broadly in line with the previous year.

(11) Open access income – this control period Network Rail has provided additional services to operators in response to customer demand which has helped generate higher income that the regulatory target across the control period, notably services provided to Hull Trains. Income is consistent with the previous year.

(12) Stations income – revenue earned this year is higher than the regulator expected, continuing the trend of earlier years of the control period. This includes the benefit of extra development works at Kings Cross station which is partly recovered through the Managed stations Qualifying expenditure revenue mechanism.

(13) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this year and in the control period due to lower Facility fees. This is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole. Income is consistent with the previous year.

(14) Depots income – revenue is higher than the regulator's assumptions in both the current year and across the control period mainly due to extra facilities offered to train operators. Income is consistent with the previous year.

Statement 6b: Analysis of other single till income, London North East

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	34	41	(7)	166	177	(11)	33
Property sales	60	4	56	76	18	58	8
Adjustment for commercial opex	-	(5)	5	-	(23)	23	-
Total property income	**94**	**40**	**54**	**242**	**172**	**70**	**41**
Freight income							
Freight variable usage charge	13	25	(12)	70	109	(39)	13
Freight traction electricity charges	1	2	(1)	5	6	(1)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	2	(1)	6	8	(2)	1
Freight only line charge	1	1	-	6	3	3	1
Freight specific charge	-	2	(2)	-	4	(4)	-
Freight other income	2	-	2	5	-	5	1
Freight coal spillage charge	1	-	1	6	2	4	1
Total freight income	**19**	**32**	**(13)**	**98**	**132**	**(34)**	**17**
Open access income							
Variable usage charge income	3	2	1	15	11	4	3
Open access capacity charge	1	1	-	5	5	-	1
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	9	10	(1)	45	46	(1)	9
Open access other income	-	-	-	-	-	-	-
Total open access income	**13**	**13**	**-**	**65**	**62**	**3**	**13**
Stations income							
Managed stations income							
Long term charge	5	6	(1)	29	29	-	6
Qualifying expenditure	9	7	2	41	36	5	8
Total managed stations income	14	13	1	70	65	5	14
Franchised stations income							
Long term charge	11	11	-	57	57	-	10
Stations lease income	8	7	1	39	34	5	9
Total franchised stations income	19	18	1	96	91	5	19
Total stations income	**33**	**31**	**2**	**166**	**156**	**10**	**33**
Facility and financing charges							
Facility charges	1	4	(3)	5	15	(10)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**1**	**4**	**(3)**	**5**	**15**	**(10)**	**1**
Depots income	**12**	**8**	**4**	**54**	**42**	**12**	**13**
Other	**1**	**1**	**-**	**5**	**3**	**2**	**1**
Total other single till income	**173**	**129**	**44**	**635**	**582**	**53**	**119**

Statement 6b: Analysis of other single till income (unaudited), London North East – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	52	35	(17)	256	205	(51)	50
Signalling shift managers	2	2	-	15	13	(2)	3
Local operations managers	6	3	(3)	27	14	(13)	7
Controllers	6	6	-	27	30	3	5
Electrical control room operators	2	2	-	7	10	3	2
Total signaller expenditure	**68**	**48**	**(20)**	**332**	**272**	**(60)**	**67**
Non-signaller expenditure							
Mobile operations managers	6	5	(1)	30	29	(1)	6
Managed stations	9	6	(3)	46	35	(11)	9
Performance	3	2	(1)	15	13	(2)	3
Customer relationship executives	1	1	-	5	6	1	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	4	3	(1)	18	18	-	3
Other	16	2	(14)	48	11	(37)	9
Operations delivery	-	-	-	1	-	(1)	-
HQ - Operations services	-	-	-	1	-	(1)	-
HQ - Performance and planning	1	-	(1)	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	23	5	(18)	24	26	2	4
Other operating income	(4)	(3)	1	(25)	(19)	6	(6)
Total non-signaller expenditure	**59**	**21**	**(38)**	**164**	**119**	**(45)**	**29**
Total network operations expenditure	**127**	**69**	**(58)**	**496**	**391**	**(105)**	**96**
Support costs							
Core support costs							
Human resources	3	10	7	28	57	29	3
Information management	12	11	(1)	59	61	2	11
Government and corporate affairs	1	3	2	11	18	7	1
Group strategy	1	1	-	5	6	1	1
Finance	5	5	-	19	27	8	4
Business services	4	2	(2)	15	12	(3)	3
Accommodation	11	5	(6)	51	26	(25)	11
Utilities	11	7	(4)	46	37	(9)	8
Insurance	3	8	5	27	41	14	6
Legal and inquiry	1	1	-	5	6	1	1
Safety and sustainable development	4	1	(3)	18	8	(10)	3
Strategic sourcing	2	2	-	6	10	4	1
Business change	1	1	-	2	3	1	1
Other corporate functions	12	1	(11)	37	3	(34)	9
Core support costs	**71**	**58**	**(13)**	**329**	**315**	**(14)**	**63**
Other support costs							
Asset management services	5	8	3	28	46	18	4
Network Rail telecoms	8	4	(4)	35	29	(6)	5
National delivery service	-	(1)	(1)	-	1	1	-
Infrastructure Projects	(4)	-	4	(17)	-	17	(4)
Commercial property	(2)	-	2	(4)	(1)	3	(1)
Group costs	(2)	(1)	1	(19)	(5)	14	(3)
Total other support costs	**5**	**10**	**5**	**23**	**70**	**47**	**1**
Total support costs	**76**	**68**	**(8)**	**352**	**385**	**33**	**64**
Traction electricity, industry costs and rates							
Traction electricity	50	66	16	202	244	42	37
Business rates	44	31	(13)	185	141	(44)	44
British transport police costs	14	11	(3)	72	61	(11)	15
RSSB costs	2	2	-	8	9	1	2
ORR licence fee and railway safety levy	1	3	2	8	14	6	1
Reporters fees	-	-	-	2	2	-	-
Other industry costs	1	-	(1)	5	2	(3)	1
Total traction electricity, industry costs and rates	**112**	**113**	**1**	**482**	**473**	**(9)**	**100**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**315**	**250**	**(65)**	**1,330**	**1,249**	**(81)**	**260**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumption this year which is almost all due to higher Network operations costs. Across the control period, costs have been higher in this statement mainly due to higher Network operations costs. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. The current year also includes settlement of commercial claims as the control period closes out. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination and the aforementioned commercial settlements made this year.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs this year are higher than the regulatory assumption mainly due to higher Utilises and Accommodation costs. Over the course of the control period there have substantial savings well in excess of the regulator’s targets.

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

In £m 2018-19 prices unless stated

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(9) Accommodation – these property expenses were higher than the determination this year, compounding overspends in earlier years of the control period. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would reduce compared to the CP4 exit position by 2017/18 but this has not been possible in the face of market conditions and resource requirements in the control period.

(10) Utilities - costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

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

In £m 2018-19 prices unless stated

(11) Insurance - costs are favourable to the determination this year and the control period. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(12) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

(13) Strategic Sourcing – costs are lower than the determination assumption across the control period which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category.

(14) Business change – costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6.

(15) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

In £m 2018-19 prices unless stated

(16) Asset management services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(17) Network Rail telecoms - costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year.

(18) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. The credit recognised in Group this year is generally in line with the previous year.

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

In £m 2018-19 prices unless stated

(20) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is in line with the regulator’s assumption in the current year as lower traction electricity costs have been offset by extra British Transport Police costs and higher Business rates. Costs across the control period are higher than the regulator expected as extra British Transport Police costs and higher Business rates have more than offset lower traction electricity costs. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(21) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(22) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency’s revaluation exercise.

(23) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year broadly in line with the previous year.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	58	62	58	60	60
MOMS	6	6	7	6	6
Control	9	7	6	6	8
Planning & Performance Staff Costs	4	5	-	6	6
Managed Stations Staff Costs	4	2	4	3	3
Operations Management Staff Costs	2	1	3	-	-
Other	7	12	10	15	44
Total operations & customer services costs	90	95	88	96	127
Total Network Operations	**90**	**95**	**88**	**96**	**127**
Support					
Human resources					
Functional support	4	4	3	3	3
Training (inc Westwood)	2	2	-	-	-
Graduates	-	1	-	-	-
Apprenticeships	2	2	-	-	-
Other	2	-	-	-	-
Total human resources	10	9	3	3	3
Information management					
Support	1	-	1	1	2
Projects	-	1	-	-	-
Licences	-	-	-	-	-
Business operations	11	11	11	10	10
Other	-	-	-	-	-
Total information management	12	12	12	11	12
Finance	3	3	4	4	5
Business Change	-	-	-	1	1
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	1	1	1	2
Planning & development	2	1	-	1	1
Safety & compliance	-	-	-	-	-
Other corporate services	2	3	3	3	5
Commercial property	8	9	11	10	9
Infrastructure Projects	(2)	(2)	(5)	(4)	(4)
Route Services	3	2	2	4	3
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	8	8	11	8	11
Network Rail Telecoms	9	8	5	5	8
Digital Railway	4	4	4	2	2
Safety Technical & Engineering	7	6	5	5	7
Government & Corporate Affairs	3	3	3	1	1
Business Services	2	2	4	3	4
Route Asset Management	1	-	-	2	4
Legal and inquiry	1	1	1	1	1
Group/central					
Pensions	-	-	-	-	-
Insurance	10	10	(1)	6	3
Redundancy/reorganisation costs	4	2	2	2	2
Staff incentives/Bonus Reduction	(6)	(1)	-	(2)	(1)
Accommodation & Support Recharges	(4)	(4)	(4)	(4)	(5)
Commercial claims settlements	-	(2)	-	-	-
ORR financial penalty	(5)	-	-	-	-
Other	2	(1)	2	1	2
Total group/central costs	1	4	(1)	3	1
Total support	**75**	**74**	**63**	**64**	**76**
Total network operations and support costs	**165**	**169**	**151**	**160**	**203**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North East

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	82	65	(17)	396	338	(58)	82
Signalling	31	26	(5)	147	129	(18)	29
Civils	37	20	(17)	155	104	(51)	36
Buildings	11	8	(3)	43	37	(6)	10
Electrical power and fixed plant	17	13	(4)	80	66	(14)	17
Telecoms	4	3	(1)	20	15	(5)	4
Other network operations	25	24	(1)	125	124	(1)	20
Asset management services	24	5	(19)	85	28	(57)	21
National Delivery Service	(1)	7	8	(5)	36	41	(1)
Property	-	1	1	1	4	3	-
Group	(3)	(3)	-	(21)	(14)	7	(5)
Total maintenance expenditure	**227**	**169**	**(58)**	**1,026**	**867**	**(159)**	**213**

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Across the control period costs have been higher than the regulator assumed. This is a combination of the extra civils inspections, as noted above, and additional Reactive maintenance. This activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with the previous year.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, following the trend of the earlier years of the control period. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with 2017/18.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. London North East have also spent more in this area to improve performance. The route has suffered from a number of de-wirement incidents which have impacted performance which has required extra remediation and resilience spend. The prolonged period of hot weather over the summer month also had an impact on asset condition which required corrective action. In addition, certain responsibilities have been moved from Other network operations which has decreased costs in that category. Costs are consistent with the previous year.

(7) Telecoms - costs are higher that the regulatory assumption across the control period. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.

(8) Other network operations – costs across the control period are broadly in line with the regulator's determination. However, this is due to savings as a result of activities and responsibilities being reclassified under Asset management services offset by extra one-off costs earlier in the control period. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

(9) Asset management services – costs are higher than the regulator's assumption this year and across the control period. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Other network operations, additional activity undertaken by the routes to understand and manage the assets in their area and slower than planned efficiency savings.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2018-19 prices unless stated

(10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

(11) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, London North East

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	130	119	(11)	842	681	(161)	122
Signalling	156	177	21	634	843	209	123
Civils	46	63	17	393	363	(30)	55
Buildings	38	15	(23)	111	96	(15)	11
Electrical power and fixed plant	24	13	(11)	108	77	(31)	17
Telecoms	10	5	(5)	56	51	(5)	9
Wheeled plant and machinery	10	10	-	58	94	36	9
Information Technology	19	12	(7)	94	69	(25)	9
Property	1	2	1	14	12	(2)	2
Other renewals	16	70	54	77	101	24	12
Total renewals expenditure	**450**	**486**	**36**	**2,387**	**2,387**	**-**	**369**

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is lower than the determination expected but is in line with the regulatory expectation across the course of the control period. The underlying position is one of higher like-for-like costs (notably in Track, Signalling and Civils) offset by deferrals of activity. hole. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are slightly higher than the regulator assumed this year which is due to a higher like for like costs being more than offset by deferral of activity, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Financial underperformance for the control period has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around half of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. Issues with the reliability resulted in minimal volumes being delivered in the final two years of the control period. Expenditure in the current year was broadly in line with the previous year with higher Plain Line investment offsetting reductions in Switches & Crossings renewals. This year also saw increases arising from implementing new contracting arrangements for control period 6.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was lower than the determination expected this year, augmenting the underspend that had occurred earlier in the control period. The lower spend was a caused by a deferral of activity which was partly offset by higher underlying project costs. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated, with ERTMS schemes being delivered slower than expected. In addition, fewer level crossing schemes have been successfully delivered this control period due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year extra investment has been undertaken in minor works to improve resilience and catch up the backlog of previous years deferred schemes.

(4) Civils – expenditure in the year was lower than the regulator anticipated which was a result of higher underlying costs more than offset by deferral of activity. Across the control period, expenditure was higher than the regulator anticipated, which was due to higher like-for-like costs partly mitigated by activity being re-profiled into future control periods. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated which has led to higher investment across the control period as a whole. The higher costs this year are a result of additional activity and higher underlying costs. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs this year included extra investment on maintenance depots, including work at Doncaster, Holbeck and Middlesbrough.

(6) Electrical power and fixed plant – costs were noticeably higher than the regulator’s assumption this year adding to the extra investment earlier in the control period. This year included significant investment in Overhead Line programmes to improve the asset resilience in this area. Part of the additional expenditure this year was due to higher underlying project costs. These higher underlying costs have partly been caused by efficiency targets included in the regulator’s determination which now appears to have been over optimistic. Extra scope has been required on certain projects which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The higher expenditure over the control period is due to extra like-for-like costs partly mitigated by deferral of activity. Savings have been made in the Other electrical power category as projects have been delivered against specific categories to improve transparency.

(7) Telecoms – expenditure across the control period was higher than the determination which was mostly due to some efficient overspends across a number of projects. Consequently, financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR’s Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The largest area of overspend in the control period has been in Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Other renewals includes the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Delays at the end of control period 4 and contractor issues have led to slippage in the overall programme, with some work planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).

b. Intelligent infrastructure – expenditure is lower than the regulator assumed across the control period due to delays in implementation earlier in the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2018-19 prices unless stated

c. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure across the control period was less than the regulator assumed due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). In addition, insufficient schemes were identified for delivery. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

d. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

f. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. There is minimal expenditure in the current year as the programme are substantially complete. Across the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

g. Other – costs reported in the current year includes a share of the direct support costs to deliver the overall capital programme within the route. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, London North East

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	47	32	(15)	258	199	(59)
High output renewal	8	31	23	193	156	(37)
Plain line refurbishment	10	4	(6)	56	17	(39)
S&C renewal	32	28	(4)	169	142	(27)
S&C refurbishment	9	3	(6)	62	33	(29)
Track non-volume	3	8	5	24	54	30
Off track	21	13	(8)	80	80	-
Total track	**130**	**119**	**(11)**	**842**	**681**	**(161)**
Signalling						
Full conventional resignalling	43	8	(35)	234	146	(88)
Modular resignalling	-	3	3	-	15	15
ERTMS resignalling	-	75	75	19	166	147
Partial conventional resignalling	12	25	13	30	147	117
Targeted component renewal	2	9	7	11	29	18
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	26	7	(19)	78	36	(42)
Operating strategy other capital expenditure	2	-	(2)	31	17	(14)
Level crossings	30	24	(6)	87	124	37
Minor works	35	18	(17)	120	121	1
Centrally managed costs	6	8	2	24	42	18
Other	-	-	-	-	-	-
Total signalling	**156**	**177**	**21**	**634**	**843**	**209**
Civils						
Underbridges	19	29	10	145	192	47
Overbridges	7	4	(3)	85	25	(60)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	4	4	14	14	-
Tunnels	-	5	5	13	17	4
Other assets	5	3	(2)	43	25	(18)
Structures other	3	2	(1)	13	15	2
Earthworks	12	16	4	79	75	(4)
Other	-	-	-	1	-	(1)
Total civils	**46**	**63**	**17**	**393**	**363**	**(30)**
Buildings						
Managed stations	8	2	(6)	16	24	8
Franchised stations	12	10	(2)	58	47	(11)
Light maint depots	2	1	(1)	5	6	1
Depot plant	1	-	(1)	2	5	3
Lineside buildings	6	1	(5)	15	3	(12)
MDU buildings	9	1	(8)	15	9	(6)
NDS depots	-	-	-	-	2	2
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**38**	**15**	**(23)**	**111**	**96**	**(15)**

Statement 9b: Detailed analysis of renewals expenditure, London North East - continued

In £m 2018-19 prices unless stated

	2017-18 Actual	2017-18 PR13	2017-18 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	1	-	(1)	1	3	2
Overhead Line	14	2	(12)	52	13	(39)
DC distribution	-	-	-	2	-	(2)
Conductor rail	-	-	-	-	-	-
SCADA	2	-	(2)	4	6	2
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	3	3	2	16	14
Fixed plant	7	8	1	47	39	(8)
Total electrical power and plant	**24**	**13**	**(11)**	**108**	**77**	**(31)**
Telecoms						
Operational communications	2	1	(1)	10	8	(2)
Network	1	3	2	10	23	13
SISS	3	-	(3)	5	8	3
Projects and other	1	1	-	1	4	3
Non-route capital expenditure	3	-	(3)	30	8	(22)
Total telecoms	**10**	**5**	**(5)**	**56**	**51**	**(5)**
Wheeled plant and machinery						
High output	3	1	(2)	17	21	4
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	1	-	5	4	(1)
Intervention	1	1	-	13	21	8
Materials delivery	1	-	(1)	7	2	(5)
On track plant	3	2	(1)	9	14	5
Seasonal	-	-	-	2	7	5
Locomotives	-	-	-	-	-	-
Fleet support plant	1	1	-	1	5	4
Road vehicles	-	3	3	2	18	16
S&C delivery	-	1	1	2	1	(1)
Total wheeled plant and machinery	**10**	**10**	**-**	**58**	**94**	**36**
Information Technology						
IM delivered renewals	18	11	(7)	88	61	(27)
Traffic management	1	1	-	6	8	2
Total information technology	**19**	**12**	**(7)**	**94**	**69**	**(25)**
Property						
MDUs/offices	1	1	-	9	9	-
Commercial estate	-	1	1	5	3	(2)
Corporate services	-	-	-	-	-	-
Total property	**1**	**2**	**1**	**14**	**12**	**(2)**
Other renewals						
Asset information strategy	4	1	(3)	26	30	4
Intelligent infrastructure	7	4	(3)	13	16	3
Faster isolations	2	6	4	6	31	25
LOWS	1	1	-	1	2	1
Small plant	3	2	(1)	7	9	2
Research and development	2	-	(2)	3	-	(3)
Phasing overlay	-	56	56	-	13	13
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	23	-	(23)
Other	(3)	-	3	(2)	-	2
West Coast	-	-	-	-	-	-
Total other renewals	**16**	**70**	**54**	**77**	**101**	**24**
Total renewals	**450**	**486**	**36**	**2,387**	**2,387**	**-**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), London North East – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North East

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	34	57	23	158	224	66	39
Access charge supplement Income	(48)	(49)	(1)	(196)	(196)	-	(37)
Net (income)/cost	**(14)**	**8**	**22**	**(38)**	**28**	**66**	**2**
Schedule 8							
Performance element income	(3)	-	3	(30)	-	30	(3)
Performance element costs	47	1	(46)	102	6	(96)	19
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**44**	**1**	**(43)**	**72**	**6**	**(66)**	**16**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(14)	(20)	(6)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	13	45	14
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(2)	(6)	(2)
Reporters fees	-	-	-
Other industry costs	1	3	-
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(2)**	**21**	**6**

Statement 10: Other information, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are lower than the regulator expected which is mainly due to a lower volumes of renewals activity with like-for-like costs in line with the regulatory target, as shown in Statement 5a. The determination assumed a large number of signalling projects would be commissioned in 2018/19 and consequently there would be a requirement for a number of possessions. However, some of this activity was postponed meaning the costs were not incurred this year. Costs in the control period are lower than the regulatory assumption. This is mainly due to fewer renewals that require possessions being delivered across CP5. However, there has also been some outperformance, as set out in Statement 5a, which has arisen from tight possession management and fewer late notice possessions being taken by the route as it has been able to adhere to its possession management strategy. Costs are lower than the previous year which is due to efficient possession management, reduced impact of externalities (2017/18 included widespread service cancellations caused by Storm Emma) which has been offset by higher delivery of those assets that require possessions (notably Signalling) and the impact of the delays to the May timetable publication.

Statement 10: Other information, London North East – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets with the current year accounting for most of the variance. The underperformance across the control period has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services. Costs were higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by higher Business rates and the impact of the Volume Incentive measure. Freight growth has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. This has been more than offset by higher Business rates payable by London North East. This largely stemmed from well-publicised increased in Business rates that influenced results from 2017/18 onwards.

Statement 11:

There is no Statement 11 required for London North East

Statement 12: Volume incentives, London North East

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	5	1	50	48	2.6%	1.61	pence per passenger train mile
Passenger farebox (millions)	(2)	(1)	1,570	1,526	3.8%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(11)	(2)	5	6	3.0%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(12)	(2)	4,796	5,469	3.1%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(20)**	**(4)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) Whilst Network Rail has broadly achieved the regulatory targets for passenger growth this year (both in terms of Passenger train miles and Passenger farebox), it has recognised a loss overall under the volume incentive mechanism. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. The regulatory expectation was that decreases in freight for traditional items such as coal transportation would be compensated for by large increases in biomass fuel transported to the Drax power station. Although there has been growth in this area, the rate of the increase has been much lower than the regulator expected.

Statement 14: Renewals volumes, unit costs and expenditure, London North East

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
			Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	93	47	57	125	456	90	37	59	164	360
	High Output Renewal	km	9	3	3	9	333	1	-	48	57	842
	Plain line Refurbishment	km	82	10	13	99	131	57	7	15	131	115
	S&C Renewal/Refurbishment	point ends	196	23	30	283	106	194	35	50	378	132
	Track Drainage	lm	15,399	5	15	86,268	0	54,976	5	27	192,256	0
	Fencing	km	75	3	21	485	43	55	3	22	521	42
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	10	-	-	10	-	(31)	1	4	(12)	(333)
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**91**	**139**	**-**	**-**	**-**	**88**	**225**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	228	28	100	228	439	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	5	6	25	47	532	36	5	11	36	306
	Targeted Component Renewal	SEU	5	1	2	5	400	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	17	23	53	17	3,118	1	1	11	2	5,500
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**58**	**180**	**-**	**-**	**-**	**6**	**22**	**-**	**-**
Civils	Underbridges	m^2	11,511	17	64	44,076	1	14,411	16	55	33,062	2
	Overbridges (incl BG3)	m^2	1,890	6	28	9,396	3	4,578	11	32	7,803	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	7,855	-	-	8,050	-	1,047	2	4	5,912	1
	Culverts	m^2	840	1	1	993	1	563	1	2	1,026	2
	Footbridges	m^2	560	3	6	4,870	1	224	1	7	1,686	4
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m^2	20	1	1	40	25	390	1	1	390	3
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	(165)	8	29	996	29	2,366	15	36	3,001	12
	EW Drainage	m	-	-	-	-	-	11,388	1	3	13,031	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**36**	**129**	**-**	**-**	**-**	**48**	**140**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	80	-	-	80	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m^2	2,116	1	1	2,116	0	6,533	3	3	6,533	0
	Platforms (FS)	m^2	4,470	1	2	5,256	0	1,176	1	2	1,306	2
	Canopies (FS)	m^2	2,464	1	1	2,464	0	26	-	-	26	-
	Train sheds (FS)	m^2	7,015	2	3	7,015	0	-	-	-	-	-
	Footbridges (FS)	m^2	(200)	(1)	1	95	11	712	-	2	712	3
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		11,450	-	-	11,450	-	1,042	1	1	1,042	1
	Light Maintenance Depots	m^2	12,154	1	1	12,154	0	-	-	-	-	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	3,365	2	2	3,364	1	-	-	-	-	-
	MDU Buildings	m^2	4,809	3	4	4,809	1	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**10**	**15**	**-**	**-**	**-**	**5**	**8**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Electrical power and fixed plant	Wiring	Wire runs	21	2	5	51	98	21	2	6	49	122
	Mid-life refurbishment	Wire runs	1	6	12	6	2,000	-	-	-	-	-
	Structure renewals	No.	5	2	2	5	400	9	-	-	9	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	49	1	2	49	41
	Signalling Power Cables	km	19	1	17	68	250	4	-	17	64	266
	Signalling Supply Points	No.	2	-	14	21	667	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**11**	**50**	**-**	**-**	**-**	**3**	**25**	**-**	**-**
Telecoms	Customer Information Systems	No.	50	2	2	50	40	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	1	2	-	-	4	-	-	4	-
	Other Surveillance	No.	7	-	-	7	-	5	-	-	5	-
	PABX Concentrator	No. lines	1,435	1	2	11,587	0	2,948	1	1	10,152	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	2	-	1	2	500	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	11	-	1	112	9	30	-	1	101	10
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	2	-	-	9	-	7	-	-	9	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**4**	**8**	**-**	**-**	**-**	**1**	**2**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable increase in the unit cost for conventional plain line renewal and plain line refurbishment. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small. In the high output category there was a large decrease in the unit cost. However, there was only one small project in the current year compared to a large number of projects in the prior year. Therefore, it is difficult to compare unit costs because of the small sample size.

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

In £m 2018-19 prices unless stated

(3) Signalling – The level of work required, and costs can vary depending on the type of level crossing as well as the possession charges which depend on track usage in that area. Therefore, the decrease in unit cost from the prior year holds little information relating to over/under performance. The unit costs in the partial conventional re-signalling category increased. This was because the two jobs this year at Kings Cross and Durham were more complicated than the prior year jobs at Huddersfield and York

(4) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been a large reduction in the unit cost for footbridges. The main reason for this is that in the prior year the majority of the work was replacement which is the most expensive type of renewal. In the current year there has been a much smaller proportion of replacement work. In retaining walls there has been an increase in the unit cost but there was only one project in the current year, so the sample size is too small to make any useful comparisons.

(5) Buildings – There has been a large increase in the unit cost for franchised stations footbridges. However, there was only one project in the current year at Worksop Station compared to three last year. Therefore, the it is not possible to do any meaningful analysis because of the small sample size

(6) Electrical Power and Fixed Plant – There has been a small decreased in the unit cost of wiring works, however the volumes delivered this year are from the same project from the previous year and thus costs will vary depending on the nature of the work done

(7) Telecoms – There has been a decrease in the unit rate of HMI Large. However, there was only one project each year meaning that the sample size is so small it makes any analysis meaningless.

Statement 1: Summary regulatory financial performance, London North West

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	991	996	(5)	5,337	5,326	11	1,086
Fixed Income	219	193	26	629	532	97	111
Variable Income	297	330	(33)	1,480	1,571	(91)	296
Other Single Till Income	289	209	80	1,091	958	133	201
Opex memorandum account	(3)	-	(3)	(8)	-	(8)	-
Total Income	**1,793**	**1,728**	**65**	**8,529**	**8,387**	**142**	**1,694**
Operating expenditure							
Network operations	148	107	(41)	693	559	(134)	138
Support costs	101	100	(1)	484	556	72	89
Traction electricity, industry costs and rates	164	187	23	746	822	76	156
Network maintenance	378	280	(98)	1,746	1,500	(246)	358
Schedule 4	70	43	(27)	282	243	(39)	46
Schedule 8	65	2	(63)	137	7	(130)	38
Total operating expenditure	**926**	**719**	**(207)**	**4,088**	**3,687**	**(401)**	**825**
Capital expenditure							
Renewals	526	507	(19)	3,084	2,742	(342)	455
PR13 enhancement expenditure	367	369	2	2,977	3,184	207	684
Non PR13 enhancement expenditure	30	-	(30)	314	-	(314)	5
Total capital expenditure	**923**	**876**	**(47)**	**6,375**	**5,926**	**(449)**	**1,144**
Other expenditure							
Financing costs	488	447	(41)	2,112	2,036	(76)	522
Corporation tax (received)/paid	-	1	1	-	2	2	-
Total other expenditure	**488**	**448**	**(40)**	**2,112**	**2,038**	**(74)**	**522**
Total expenditure	**2,337**	**2,043**	**(294)**	**12,575**	**11,651**	**(924)**	**2,491**

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income in the year was slightly higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided throughout the control period has delivered the favourable income across the control period. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.

(4) Income – Variable income in the year was lower than the determination due to a combination of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure) and running fewer trains to reflect passenger demand. The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is broadly in line with the previous year. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). The amount recognised this year is mainly due to penalties under the volume incentive mechanism partly offset by higher Business rates costs than the regulator assumed. Amounts recognised in the control period are largely from the same sources. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2018-19 prices unless stated

(8) Operating expenditure - Support costs are broadly in line with the determination this year. Over the course of the control period there have substantial savings well in excess of the regulator's targets. Support costs are discussed in more detail in Statement 7a.

(9) Operating expenditure - Traction electricity, industry costs and rates are lower than the determination assumed mainly due to lower electricity costs (offset by lower recoveries of these costs from operators through income). This is also the main driver of savings across the control period. Costs are higher than 2017/18 reflecting market prices increases this year. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections expenses have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination with higher average costs of possessions partly offset by reduced levels of renewals activity requiring network possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are higher than the previous year which reflects higher renewals activity and the aforementioned additional compensation costs from delays in publishing the May timetable. These extra costs have been partly offset by more benign weather. In 2017/18, Storm Emma had a material impact on schedule 4 compensation costs. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is slightly higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year. As noted in the previous year, parts of the portfolio were paused in 2017/18. These activities have now been reinstated in the current year. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2018-19 prices unless stated

(14) Capital expenditure - PR13 Enhancements expenditure this year is broadly in line with the baseline and reflects the net position across a number of different programmes. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) more than offset by deferral of activity on certain schemes into future control periods. Expenditure is lower than the previous year. Whilst this is a net position across a number of projects there is a noticeable contribution from Northern Hub. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are higher than the determination expected due to higher levels of average debt in the year. Costs in the control period are higher than the regulatory target mainly due to higher average net debt levels. Costs are lower than the previous year as higher levels of debt have been offset by lower interest costs, mostly due to lower inflation rates impacting accreting debt instruments. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North West

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**13,029**	**11,981**	**1,048**
Indexation to 2017-18 prices	1,601	1,472	129
Opening RAB for the year (2017-18 prices)	**14,630**	**13,453**	**1,177**
Indexation for the year	467	429	38
Opening RAB (2018-19 prices)	**15,097**	**13,882**	**1,215**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	485	507	(22)
PR13 enhancements	383	352	31
Non-PR13 enhancements	29	-	29
Total enhancements	412	352	60
Amortisation	(639)	(639)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2019	**15,355**	**14,102**	**1,253**

RAB Regulatory financial position - cumulative, London North West

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**11,958**	**13,099**	**14,009**	**14,632**	**15,097**	**11,958**
Adjustments for the actual capital expenditure outturn in CP4	338	-	-	-	-	338
Renewals	646	709	587	417	485	2,844
PR13 enhancements	714	586	611	673	383	2,967
Non-PR13 enhancements	33	205	38	14	29	319
Total enhancements	747	791	649	687	412	3,286
Amortisation	(589)	(590)	(613)	(639)	(639)	(3,070)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	-	(1)
Closing RAB	**13,099**	**14,009**	**14,632**	**15,097**	**15,355**	**15,355**

Statement 2a: RAB - Regulatory financial position, London North West – continued

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional investment including under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken.

(4) Renewals – renewals added to the RAB was broadly in line with the regulatory assumption this year. This was mostly due efficient overspend, where only where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The impact of this was offset by some additional works undertaken this year compared to the regulatory expectation. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This is mainly due to the less expenditure on schemes than the regulator assumed at the time the CP5 determination was prepared. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. Expenditure this this year includes investment to facilitate HS2 and Northern Programmes.

Statement 2a: RAB - Regulatory financial position, London North West – continued

In £m 2018-19 prices unless stated

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North West

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**577**	**576**	**557**	**525**	**507**	**2,742**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	32	-	-	-	-	32
Capitalised financing on CP4 deferrals	1	2	1	2	2	8
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**610**	**578**	**558**	**527**	**509**	**2,782**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(117)	(92)	(163)	(241)	(160)	(773)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(8)	(14)	(23)	(32)	(80)
Adjustments for efficient overspend	185	279	237	169	168	1,038
Capitalised financing on efficient overspend	5	15	28	37	45	130
25% retention of efficient overspend	(47)	(70)	(56)	(43)	(42)	(258)
Capitalised financing on efficient overspend 25% retention	(2)	(4)	(8)	(10)	(11)	(35)
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	17	12	3	(1)	8	39
Capitalised financing on efficient overspend through spend to save framework	-	2	2	(1)	3	6
Retention of efficient overspend through spend to save framework	(3)	(2)	-	2	(2)	(5)
Capitalised financing on efficient overspend through spend to save framwork retention	-	(1)	-	1	(1)	(1)
Other adjustments	1	-	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**646**	**709**	**587**	**417**	**485**	**2,844**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(1)	(4)	(9)	(6)	(5)	(25)
Adjustment for 25% retention of efficient overspend	49	73	57	42	44	265
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	(1)	(1)	(1)	1	2	-
Total actual renewals expenditure (see statement 9)	**693**	**777**	**634**	**454**	**526**	**3,084**

Statement 2b: RAB - reconciliation of expenditure, London North West - continued

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**532**	**596**	**481**	**507**	**352**	**2,468**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	66	(67)	-	-	-	(1)
Capitalised financing on CP4 deferrals	2	1	-	-	-	3
Baseline adjustments	-	277	433	(9)	17	718
Capitalised financing on Baseline adjustments	-	6	20	32	33	91
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	(1)	-	-	-	-	(1)
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**599**	**813**	**934**	**530**	**402**	**3,278**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	73	(224)	(377)	62	(19)	(485)
Capitalised financing on acceleration / (deferrals) of expenditure	1	(1)	(16)	(22)	(22)	(60)
Adjustments for efficient overspend / (underspend)	48	(4)	92	126	17	279
Capitalised financing on efficient overspend / (underspend)	1	3	4	9	12	29
25% retention of efficient overspend / (underspend)	(11)	1	(25)	(30)	(4)	(69)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(1)	(2)	(3)	(7)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	-	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	2	-	-	-	-	2
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**714**	**586**	**611**	**673**	**383**	**2,967**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	33	211	27	5	31	307
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	(11)	-	(2)	(15)	(29)
Capitalised financing on non-PR13 enhancements expenditure	1	5	11	11	13	41
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)	**33**	**205**	**38**	**14**	**29**	**319**
Total enhancements (added to the RAB - see statement 2a)	**747**	**791**	**649**	**687**	**412**	**3,286**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(4)	(12)	(21)	(29)	(33)	(99)
Adjustment for 25% retention of efficient overspend	14	11	24	32	18	99
Other Adjustments	8	10	(9)	-	-	9
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	119	15	76	234	385	829
Other adjustments	(2)	-	(1)	(1)	-	(4)
Total actual enhancement expenditure (see statement 3)	**882**	**815**	**718**	**923**	**782**	**4,120**

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail’s investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2018-19 prices unless stated

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

(12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, London North West

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	4	1	(3)	17	17	-
Stations - Access for All (AfA)	4	(5)	(9)	26	22	(4)
Development	(11)	(3)	8	10	31	21
Level crossing safety	4	4	-	15	15	-
Passenger journey improvement	9	(4)	(13)	11	13	2
The strategic rail freight network	17	(18)	(35)	44	50	6
Total funds	**27**	**(25)**	**(52)**	**123**	**148**	**25**
Committed projects						
East West Rail (committed scheme)	15	137	122	262	382	120
Northern Hub	236	234	(2)	1,614	1,567	(47)
IEP Programme	-	-	-	1	-	(1)
North Trans Pennine electrification East	18	-	(18)	18	-	(18)
NW Electrification	-	-	-	(3)	-	3
Stafford area improvement scheme	-	2	2	187	183	(4)
West coast power supply upgrade	5	32	27	212	224	12
Total committed projects	**274**	**405**	**131**	**2,291**	**2,356**	**65**
Named schemes						
The Electric Spine:						
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	(5)	(5)	-	3	3
DfT Sofa amount	-	1	1	18	16	(2)
Total Electric Spine projects	**-**	**(4)**	**(4)**	**18**	**19**	**1**
Midlands						
Walsall to Rugeley electrification	43	57	14	136	136	-
Total Midlands Projects	**43**	**57**	**14**	**136**	**136**	**-**
HLOS capacity metric schemes						
Chiltern Main Line Train Lengthening	-	(1)	(1)	17	16	(1)
North West train lengthening	2	12	10	4	35	31
Total HLOS capacity metric schemes	**2**	**11**	**9**	**21**	**51**	**30**
CP4 project rollovers						
Birmingham New St Gateway	2	(19)	(21)	199	201	2
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	5	(1)	(6)	65	65	-
Redditch Branch Enhancement	-	-	-	19	19	-
Station Security	1	3	2	2	2	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**8**	**(17)**	**(25)**	**285**	**287**	**2**
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	(2)	(2)	-	-	-
R&D allowance	-	2	2	4	5	1
Depots and stabling	9	(55)	(64)	128	129	1
Income generating property schemes	4	(3)	(7)	43	53	10
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(72)	-	72
Total other projects	**13**	**(58)**	**(71)**	**103**	**187**	**84**
Total PR13 funded enhancements (see statement 2b)	**367**	**369**	**2**	**2,977**	**3,184**	**207**

Statement 3: Analysis of enhancement capital expenditure, London North West - continued

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
NHub Huyton & Roby	-	-	-	-	-	-
NW Electrification	3	-	(3)	104	-	(104)
Other government sponsored schemes	16	-	(16)	23	-	(23)
Total Government sponsored schemes	**19**	**-**	**(19)**	**127**	**-**	**(127)**
Network Rail spend to save schemes						
Mountfield	-	-	-	8	-	(8)
Other spend to save schemes	1	-	(1)	1	-	(1)
Total Network Rail spend to save schemes	**1**	**-**	**(1)**	**9**	**-**	**(9)**
East West Rail (committed scheme)	-	-	-	153	-	(153)
Other	-	-	-	1	-	1
Total Schemes promoted by third parties	**-**	**-**	**-**	**154**	**-**	**(154)**
Discretionary Investment	**10**	**-**	**(10)**	**24**	**-**	**(24)**
Total non PR13 enhancement expenditure	**30**	**-**	**(30)**	**314**	**-**	**(314)**
Total Network Rail funded enhancements (see Statement 1)	**397**	**369**	**(28)**	**3,291**	**3,184**	**(107)**
Third Party PAYG	**385**	**-**	**(385)**	**829**	**-**	**(829)**
Total enhancements (see statement 2b)	**782**	**369**	**(413)**	**4,120**	**3,184**	**(936)**

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £397m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£782m) less the PAYGO schemes funded by third parties (£385m).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 prices unless stated

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline, offsetting some of the underspend experienced earlier in the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure this year was higher than the baseline which has brought the control period total broadly into line with the Hendy expectation. Notable projects this year included Stratford-upon-Avon and Longbridge.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. This year included delivery of important projects at Kidsgrove and Lichfield.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Across the control period expenditure was lower than the baseline as less work was undertaken, notably on the High Speed 2 element of the fund as progress on that programme has been slower than assumed. The credit balance in the current year is mostly due changes in the funding of High Speed 2 projects which has resulted in higher PAYGO project costs.

d. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure across the control period was broadly in line with the Hendy baseline.

e. Passenger Journey Improvement - this fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure across the control period was largely in line with the Hendy baseline. The major area of investment this year was on Cannock line speed improvements.

f. The Strategic Rail Freight Network - the fund should support sustainable rail transport for freight, thereby reducing the supply chain’s transport emissions and reducing road congestion. Although expenditure is higher than the baseline this year it remains lower than the Hendy target across the control period. The large overspend in the current year is partly due to the DfT reallocating some of the CP6 enhancements budget to other areas of the portfolio. This year included expenditure on the Peak Forest to London route.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 prices unless stated

(6) PR13 funded schemes – Committed Projects - overall expenditure for the year is lower than the Hendy baseline mostly due to slower progress on the East West rail programme. Across the control period, expenditure is lower overall with the main contribution from this programme also. The notable variances between expenditure and the baseline are set out below:

a. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower than the baseline this year, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2 which accounted for the extra spend earlier in the control period as did some of the financial underperformance reported (refer to Statement 5). The lower costs for the control period are mainly due to deferrals of activity to later years as the output and timing of this programme have been re-phased in line with DfT commitments.

b. Northern Hub - the outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs in the control period are higher than the baseline which reflects higher underlying programme costs partly mitigated by deferral of activity into CP6. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review by the time the works finish in CP6. Expenditure this year includes improvements to power supplies at Liverpool Lime Street station.

c. North Trans Pennine Electrification - this programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. Investment across the control period is higher than the Hendy baseline for CP5 as works have been reprofiled between CP5 and CP6 and between routes (London North West and London North East). Notable schemes this year included platform extensions.

d. Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target. As planned, there was minimal investment in the current year as the programme is substantially complete.

e. West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period are lower than the baseline. However, this is mainly due to deferral of activity which has more than offset higher underlying costs. These additional programme costs have resulted in financial underperformance being recognised this control period (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 prices unless stated

(7) PR13 funded schemes – named schemes - expenditure in the year is less than the baseline but is similar to the Hendy target across the control period. The following notable variances between expenditure and baselines are set out below:

a. Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.

b. Electric spine - this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure in the current year is minimal and expenditure across the control period is consistent with the target.

c. Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure across the control period is in line with the Hendy baseline. However, this includes a significant reduction in the outputs delivered. The increase in overall programme costs has been impacted by prolongation of the project and higher than expected contractor costs and project complexity. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).

(8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline continuing the trend from earlier years of the control period. The following notable variances between expenditure and baselines are set out below:

a. Chiltern Main Line Train Lengthening - this project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. Overall programme costs are broadly in line with the baseline.

b. North West train lengthening - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. There has been minimal work so far on this programme which has caused a variance in the current year and across the control period. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress.

(9) Other CP4 Rollover – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Expenditure in this category across the control period is broadly in line with the Hendy baseline. Notable variances between the funding available and actual spend in these areas are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 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 for the control period are broadly in line with the Hendy baseline as a result of changes made to the baseline by DfT through the change control process.

b. Bromsgrove Elec - Midlands Improvements Programme - this project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn around at Longbridge to Bromsgrove. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first four years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).

c. Redditch branch enhancement – this project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure for the control period is in line with the baseline. There is minimal expenditure in the current year as this programme is substantially complete.

(10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:

a. R&D allowance – following change control procedures agreed with DfT, there is not intended to be any further investment in R&D classified as Enhancements. Instead, expenditure in the current year (and for 2017/18) is included with renewals (refer to Statement 9b).

b. Depots & stabling – the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is higher than the baseline which was adjusted this year through DfT's change control process. Across the control period investment is consistent with the Hendy baseline. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

c. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure across the control period is lower than the regulator assumed as fewer appropriate schemes have been identified.

d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by the same amount (refer to Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2018-19 prices unless stated

(11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programmes this year relate to contributions to the North Wester Electrification programme and costs relating to timetable publication delays. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5).

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. Discretionary investment – expenditure in the control period includes to Manchester Victoria station redevelopment and on CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relates to expenditure incurred by Network Rail on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

d. PAYGO – there is a significant amount of expenditure this year on East West Rail projects and on schemes to facilitate the integration of HS2 into the railway network of Great Britain.

Statement 4: Net debt and financial ratios, London North West

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**10,742**	**9,426**	**(1,316)**	**7,271**	**7,100**	**(171)**
Income						
Grant income	(991)	(996)	(5)	(5,032)	(5,022)	10
Fixed charges	(219)	(193)	26	(601)	(508)	93
Variable charges	(297)	(330)	(33)	(1,395)	(1,486)	(91)
Other single till income	(289)	(209)	80	(1,035)	(907)	128
Total income	**(1,796)**	**(1,728)**	**68**	**(8,063)**	**(7,923)**	**140**
Expenditure						
Network operations	148	107	(41)	657	529	(128)
Support costs	101	100	(1)	456	523	67
Traction electricity, industry costs and rates	164	187	23	706	780	74
Network maintenance	378	280	(98)	1,651	1,414	(237)
Schedule 4	70	43	(27)	266	229	(37)
Schedule 8	65	2	(63)	135	8	(127)
Renewals	526	507	(19)	2,893	2,582	(311)
PR13 enhancement	367	352	(15)	2,794	2,318	(476)
Non-PR13 enhancement	30	-	(30)	291	-	(291)
Total expenditure	**1,849**	**1,578**	**(271)**	**9,849**	**8,383**	**(1,466)**
Financing						
Interest expenditure on nominal debt - FIM covered	51	167	116	408	688	280
Interest expenditure on index linked debt - FIM covered	55	63	8	267	290	23
Expenditure on the FIM	56	102	46	337	462	125
Interest expenditure on government borrowing	223	-	(223)	567	-	(567)
Interest on cash balances held by Network Rail	(2)	(6)	(4)	(9)	(21)	(12)
Total interest costs	**383**	**326**	**(57)**	**1,570**	**1,419**	**(151)**
Accretion on index linked debt - FIM covered	105	121	16	449	617	168
Total financing costs	**488**	**447**	**(41)**	**2,019**	**2,036**	**17**
Corporation tax	-	1	1	-	2	2
Other	(46)	-	46	161	125	(36)
Movement in net debt	**495**	**298**	**(197)**	**3,966**	**2,623**	**(1,343)**
Closing net debt	**11,237**	**9,724**	**(1,513)**	**11,237**	**9,723**	**(1,514)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	1.01	1.12	0.96	0.62	0.60	1.14
FFO/interest	2.95	2.94	2.65	2.34	2.26	3.11
Net debt/RAB (gearing)	69.3%	70.3%	71.5%	73.4%	73.2%	68.9%
FFO/debt	9.7%	9.2%	8.8%	7.8%	7.7%	10.4%
RCF/debt	6.5%	6.3%	5.7%	4.5%	4.3%	7.0%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 London North West has increased by £0.5bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.

(3) Net debt attributable to London North West at 31 March 2019 is £1.5bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. These extra cash outflows have been partly mitigated by benefits from asset divestment recognised this year.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation. Costs across the control period are broadly in line with the regulatory assumption.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was mostly due to lower inflation rates than the regulator assumed in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(13) Other – is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16)Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. The regulators expectation for this year was that Network Rail would be able to achieve this. However, despite the positive impact that the asset divestment programme had in the year on the ratio, the 2018/19 result was behind expectation. This variance is mainly due to higher Schedule 8, Network operations and Maintenance costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The ratio is broadly in line with the previous year, although once the impact of the asset divestment is removed, the ratio has declined. This is mostly due to extra Schedule 8 and Network operations costs this year.

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

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. The ratio is broadly in line with the previous year, despite continued high levels of investment in the network. This is because the ratio has benefitted from the asset divestment programme as it reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. There is a slight decline in the ratio compared to the previous year, but this been flattered by the extra income generated from the asset divestment programme. The underlying decline this year is due to extra Schedule 8 and Network operations costs.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, London North West

In £m 2018-19 prices unless stated

			2018-19					
	Actual	**Adjusted PR13**	**Variance to adjusted PR13**	**Due to: Variance not included in total financial performance**	**Variances in volume of work**	**Other adjustments to PR13**	**Final Variance**	**Financial out / (under) performance**
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	991	996	(5)	(5)	-	-	-	-
Fixed Income	219	193	26	26	-	-	-	-
Variable Income	218	231	(13)	-	-	-	(13)	(13)
Other Single Till Income	289	209	80	106	-	-	(26)	(26)
Opex memorandum account	(3)	-	(3)	-	-	-	(3)	(3)
Total Income	**1,714**	**1,629**	**85**	**127**	**-**	**-**	**(42)**	**(42)**
Expenditure								
Network operations	148	107	(41)	-	-	-	(41)	(41)
Support costs	101	100	(1)	1	-	-	(2)	(2)
Industry costs and rates	75	72	(3)	-	-	-	(3)	(3)
Traction electricity	9	15	6	-	-	-	6	6
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	378	280	(98)	-	(6)	-	(92)	(92)
Schedule 4 costs	70	43	(27)	-	13	-	(40)	(40)
Schedule 8 costs	65	2	(63)	-	-	-	(63)	(63)
Renewals	526	507	(19)	-	153	-	(172)	(43)
PR13 Enhancements	367	369	2	-	23	-	(21)	-
Non PR13 Enhancements	30	-	(30)	-	(20)	-	(10)	(10)
Financing Costs	488	447	(41)	(41)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	(1)	-	2	2
Total Expenditure	**2,258**	**1,944**	**(314)**	**(40)**	**162**	**-**	**(436)**	**(286)**
Total:			**(229)**	**87**	**162**	**-**	**(478)**	**(328)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(328)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(49)
Under-delivery of train performance requirements (CaSL)	(8)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed milestones for Enhancements	-
Total adjustment for under-delivery outputs	**(57)**
Total financial out / (under) performance to be recognised	**(385)**

Statement 5a: Total financial performance, London North West - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
							G = C - D - E- F	H = G or H = G*25%
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	5,337	5,326	11	11	-	-	-	-
Fixed Income	629	532	97	97	-	-	-	-
Variable Income	1,132	1,156	(24)	-	-	-	(24)	(24)
Other Single Till Income	1,091	958	133	106	-	-	27	27
Opex memorandum account	(8)	-	(8)	(6)	-	-	(2)	(2)
Total Income	**8,181**	**7,972**	**209**	**208**	**-**	**-**	**1**	**1**
Expenditure								
Network operations	693	559	(134)	-	-	-	(134)	(134)
Support costs	484	556	72	12	-	-	60	60
Industry costs and rates	356	341	(15)	-	-	-	(15)	(15)
Traction electricity	41	62	21	-	-	-	21	21
Reporter's fees	1	4	3	3	-	-	-	-
Network maintenance	1,746	1,500	(246)	-	(1)	-	(245)	(245)
Schedule 4 costs	282	243	(39)	-	73	-	(112)	(112)
Schedule 8 costs	137	7	(130)	-	-	-	(130)	(130)
Renewals	3,084	2,742	(342)	-	705	-	(1,047)	(264)
PR13 Enhancements	2,977	3,184	207	-	491	-	(284)	(65)
Non PR13 Enhancements	314	-	(314)	-	(290)	-	(24)	(24)
Financing Costs	2,112	2,036	(76)	(76)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	2	2	-	-	-	2	2
Total Expenditure	**12,227**	**11,236**	**(991)**	**(61)**	**978**	**-**	**(1,908)**	**(906)**
Total:			**(782)**	**147**	**978**	**-**	**(1,907)**	**(905)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(905)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(129)
Under-delivery of train performance requirements (CaSL)	(23)
Missed milestones for asset management - data quality	(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(12)
Missed milestones for Enhancements	(1)
Total adjustment for under-delivery outputs	**(166)**
Total financial out / (under) performance to be recognised	**(1,071)**

Statement 5a: Total financial performance, London North West - continued

In £m 2018-19 prices unless stated

	2018-19				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	(79)	(99)	-	20	(348)	(415)	-	67
Total variance not included in total financial performance:	**(79)**	**(99)**	**-**	**20**	**(348)**	**(415)**	**-**	**67**
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Property Divestment	106	-	-	106	106	-	-	106
Total variance not included in total financial performance:	**106**	**-**	**-**	**106**	**106**	**-**	**-**	**106**
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	-	1	5	-	-	5
Release of CP4 long distance financial penalty provision	-	-	-	-	7	-	-	7
Total variance not included in total financial performance:	**1**	**-**	**-**	**1**	**12**	**-**	**-**	**12**
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction electricity	79	99	-	(20)	348	415	-	(67)
Total variance not included in total financial performance:	**79**	**99**	**-**	**(20)**	**348**	**415**	**-**	**(67)**

Statement 5a: Total financial performance, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – part of the variance that has arisen in the year and across the control period is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this. The remaining variance relates to additional income Network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

Statement 5a: Total financial performance, London North West – continued

In £m 2018-19 prices unless stated

(3) Variable income – in the current year and the control period as a whole, Network Rail has run less trains that the regulator expected and so has earned less through the variable track access and capacity charge arrangements than the determination target. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial underperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. Across the control period, outperformance has been recognised in Other single till income, generated by extra property sales (including disposing of its interests in the Grand Central shopping complex in Birmingham) has helped offset lower freight income. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slower freight growth owing structural changes in the industry have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

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(6) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as some locations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. There has been additional investment in extra security staff at known hotspots on the network to combat the risk of network trespass and so passenger disruption. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – this year Support costs are broadly in line with the determination. Across the control period, however, Support costs have outperformed the regulatory expectation. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance.

Statement 5a: Total financial performance, London North West – continued

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(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail’s share has increased relative to the regulator’s expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variance for the control period arises from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

Statement 5a: Total financial performance, London North West – continued

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(10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher due to the impact of prolonged hot periods in the summer which necessitated asset repairs. This year also has additional costs as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, London North West – continued

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(11) Schedule 4 costs – this year costs are higher than the determination assumed. This is mainly due to higher like-for-like costs offset by deferral of activity. The like-for-like costs were higher than the regulator assumed, continuing the trend of earlier years of the control period. These higher like-for-like costs have resulted in the financial underperformance reported in this statement. This year, over half of the higher like-for-like costs were caused by the delay in publishing the May timetable and the knock-on impact on future timetable publications. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven’t been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, London North West – continued

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(12) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made (including increased fencing, deployment of extra security staff at known hotspots and working with the Samaritans) such disruption affects performance significantly. Performance this year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b.

Statement 5a: Total financial performance, London North West – continued

In £m 2018-19 prices unless stated

(14) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Northern Hub as well as portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. The control period position is largely dominated by underperformance on Northern Hub. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. 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 this control period are higher than the regulator expected mainly due to higher average net debt levels compared to the assumption in the regulators' PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, London North West – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

(6) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.

Statement 5b: Total financial performance - renewals variance analysis, London North West

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(15)	45	(60)	(15)	-	(14)	(1)	-
Signalling	(36)	12	(48)	(12)	-	(13)	1	-
Civils	25	65	(40)	(10)	-	(10)	-	-
Buildings	(11)	5	(16)	(4)	-	(1)	(3)	-
Electrical power and fixed plant	(11)	(3)	(8)	(2)	-	(1)	(1)	-
Telecoms	(9)	(13)	4	1	-	1	-	-
Wheeled plant and machinery	(1)	(1)	-	-	-	-	-	-
IT	(11)	(11)	-	-	-	-	-	-
Property	1	1	-	-	-	-	-	-
Other renewals	49	53	(4)	(1)	-	(1)	-	-
Total	**(19)**	**153**	**(172)**	**(43)**	**-**	**(39)**	**(4)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(187)	161	(348)	(87)	-	(87)	-	-
Signalling	(149)	91	(240)	(60)	-	(52)	(8)	-
Civils	(60)	216	(276)	(69)	-	(45)	(24)	-
Buildings	(26)	70	(96)	(24)	-	(14)	(10)	-
Electrical power and fixed plant	49	129	(80)	(20)	-	(4)	(16)	-
Telecoms	29	29	-	-	-	(2)	2	-
Wheeled plant and machinery	57	57	-	-	-	-	-	-
IT	(48)	(48)	-	-	-	-	-	-
Property	(4)	(8)	4	1	-	1	-	-
Other renewals	(3)	8	(11)	(5)	-	1	(6)	-
Total	**(342)**	**705**	**(1,047)**	**(264)**	**-**	**(202)**	**(62)**	**-**

Where: $C = A - B$

$D = C \times 25\%$

$D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

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(2) Track – there has been notable financial underperformance in the current year some of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Of the underperformance experienced this control period around one-fifth was expected in the CP5 Business Plan. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Signalling financial performance has adversely affected by cost increases on certain large re-signalling schemes such Liverpool Lime St, Weaver Wavertree & Birmingham New Street where extra scope was added into programmes, taking advantage of contractor and possession availability. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

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(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. This included work restoring the Carlisle-Settle line following storm damage and a significant landslip at Harbury tunnel.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Additional scope has been delivered as part of the London North West's efforts to combat network trespass and suicide. In addition, some extra work has been undertaken to improve asset condition, safety and operator customer relationships, notably at Liverpool Moorfields, Manchester Victoria, Carlisle and London Euston minor works.

(6) Electrical power and fixed plant – as in previous years of the control period, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required on certain projects (notably for power cables which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. Extra scope has been required in light of a higher number of overhead line damage caused by external events, notably in the Bletchley part of the network.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised across the control period includes notable contributions from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North West

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	122	117	-	5	-
West coast power supply upgrade	27	28	-	(1)	-
Walsall to Rugeley electrification	14	19	-	(5)	(1)
Chiltern Main Line Train Lengthening	(1)	(2)	-	1	-
Manchester Victoria	-	-	-	-	-
Northern Hub	(2)	17	-	(19)	(4)
IEP Programme	-	-	-	-	-
Bromsgrove Elec - Midlands Improvements Progra	(6)	(7)	-	1	-
T12 Enhancements	(11)	(1)	-	(10)	(3)
Electric Spine	(4)	(4)	-	-	-
Stations - Access for All (AfA)	(9)	(5)	-	(4)	(4)
Other Enhancements	(158)	(159)	-	1	2
Total	**(28)**	**3**	**-**	**(31)**	**(10)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	120	141	-	(21)	(5)
West coast power supply upgrade	12	50	-	(38)	(10)
Walsall to Rugeley electrification	-	40	-	(40)	(10)
Chiltern Main Line Train Lengthening	(1)	2	-	(3)	(1)
Manchester Victoria	(11)	-	-	(11)	(11)
Northern Hub	(47)	128	-	(175)	(44)
IEP Programme	(1)	(1)	-	-	-
Bromsgrove Elec - Midlands Improvements Progra	-	5	-	(5)	(1)
T12 Enhancements	(11)	-	-	(11)	(3)
Electric Spine	1	1	-	-	-
Stations - Access for All (AfA)	(4)	-	-	(4)	(4)
Other Enhancements	(165)	(165)	-	-	-
Total	**(107)**	**201**	**-**	**(308)**	**(89)**

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programmes.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2018-19 prices unless stated

(2) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised across the control period. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations. Earlier in the control period costs increased due in part of delays in a number of sectional commissioning due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.

(3) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted. The programme has also been affected by increased contractor claims and additional complexity and work required on overhead parapets to address safety concerns.

(4) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.

(5) Northern Hub – underperformance has been recognised this year and for the control period following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition, there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted. Further cost increases identified in the current year include additional contractor claims, difficulties integrating the new infrastructure to the power grid, underestimated complexities around tunnel works and acceleration of works to get assets into operations in line with committed timescales.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2018-19 prices unless stated

(6) Bromsgrove electrification – the expected total programme costs have increased since the Hendy baseline was set. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period in 2017/18. Further possessions had to be acquired in the current year which has resulted in extra project costs.

(7) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

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

Statement 5d: Total financial performance - REBS performance, London North West

In £m 2018-19 prices unless stated

	Cumulative to 2018-19						
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	318	353	(35)	-	-	-	(35)
Capacity charge	657	680	(23)	-	-	-	(23)
Electricity asset utilisation charge	24	27	(3)	-	-	-	(3)
Property income	378	291	87	-	-	-	87
Expenditure							
Network operations	693	632	(61)	-	-	-	(61)
Support costs	484	534	50	-	6	-	44
RSSB and BT Police	118	101	(17)	-	-	-	(17)
Network maintenance	1,746	1,430	(316)	11	-	-	(327)
Schedule 4 costs	282	227	(55)	57	-	-	(112)
Schedule 8 costs	137	-	(137)	-	-	-	(137)
Renewals	3,084	2,644	(440)	607	-	(783)	(264)
Total REBS performance			**(950)**	**675**	**6**	**(783)**	**(848)**

Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(129)
Under-delivery of train performance requirements (CaSL)	(23)
Missed milestones for asset management - data quality	(1)
Missed ORBIS milestones	(12)
Total adjustment for under delivery of outputs and reduced sustainability	**(165)**
Cumulative performance to end of 2018-19	**(1,013)**
Less cumulative outperformance recognised up to the end of 2017-18	(638)
Net REBS performance for 2018-19	**(375)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**991**	**996**	**(5)**	**5,337**	**5,326**	**11**	**1,086**
Franchised track access income							
Fixed charges	**219**	**193**	**26**	**629**	**532**	**97**	**111**
Variable charges							
Variable usage charge	47	53	(6)	247	259	(12)	50
Traction electricity charges	79	99	(20)	348	415	(67)	70
Electrification asset usage charge	5	5	-	24	24	-	4
Capacity charge	130	136	(6)	652	667	(15)	129
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	36	37	(1)	209	206	3	43
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**297**	**330**	**(33)**	**1,480**	**1,571**	**(91)**	**296**
Total franchised track access income	**516**	**523**	**(7)**	**2,109**	**2,103**	**6**	**407**
Total franchised track access and grant income	**1,507**	**1,519**	**(12)**	**7,446**	**7,429**	**17**	**1,493**
Other single till income							
Property income	167	73	94	500	318	182	83
Freight income	21	38	(17)	98	155	(57)	20
Open access income	2	2	-	4	6	(2)	2
Stations income	71	67	4	353	334	19	71
Facility and financing charges	12	17	(5)	63	80	(17)	12
Depots Income	15	11	4	67	62	5	12
Other income	1	1	-	6	3	3	1
Total other single till income	**289**	**209**	**80**	**1,091**	**958**	**133**	**201**
Total income	**1,796**	**1,728**	**68**	**8,537**	**8,387**	**150**	**1,694**

Statement 6a: Analysis of income, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity) and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail’s commercial estate. Even adjusting for the impact of this single transaction, income was still higher across the control period as additional property disposals, notably of Network Rail’s interest in a shopping centre in Birmingham has been more than offset the items noted above, namely lower traction electricity income and freight revenue. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is broadly in line with 2017/18.

Statement 6a: Analysis of income, London North West – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges fixed charge income was higher than the determination this year. Network Rail has earned additional income from the provision of additional services to operators, continuing the trend of supplementary income received in earlier years of the control period. These gains have been partly offset by differences between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges for the control period are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with extra income also being earned from supplementary fixed track access agreements with operators in 2018/19.

(5) Variable usage income - income from variable usage charges paid by train operators is lower than the determination expected, continuing the trend from the previous year. Income is lower than the previous year due to extra disruptive possessions this year to support delivery of the enhancement portfolio in London North West.

Statement 6a: Analysis of income, London North West – continued

In £m 2018-19 prices unless stated

(6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

(7) Capacity charge – income from Capacity charges paid by train operators is lower than the determination expected, continuing the trend from the previous year. Income is lower than the previous year due to extra disruptive possessions this year to support delivery of the enhancement portfolio in London North West.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was broadly in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was lower than the previous year, which was in line with the regulator's assumption.

Statement 6a: Analysis of income, London North West – continued

In £m 2018-19 prices unless stated

(9) Property income – property income in the current year includes the widely-reported divestment of large parts of the commercial estate, an element of which relates to London North West route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income is lower with the determination target this year which is mainly due to less income received from the property rental business than the regulatory assumed. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Income across the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is still higher than the regulator assumed mainly due to extra property sales income which has offset reduced property rental income, owing to the ambitious growth targets inherent in the regulator's determination. The additional Property sales includes Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was lower than the previous year due to fewer disposals being achieved this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.

(10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The structural changes facing the freight market over the past few years has driven the adverse performance to the regulator's assumption across the lower control period. Traction electricity income is also lower than the regulator expected but this is mitigated by lower Traction electricity costs payable by Network Rail (refer to Statement 7a). Revenue is broadly in line with the previous year.

(11) Stations income – revenue earned this year is higher than the regulator expected, continuing the trend of earlier years of the control period. This includes the benefit of extra development works at Birmingham New Street and London Euston which is partly recovered through the Managed stations Qualifying expenditure revenue mechanism. The increased size of the Managed station estate has led to additional running costs (refer to Statement 7a).

Statement 6a: Analysis of income, London North West – continued

In £m 2018-19 prices unless stated

(12) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this year and in the control period due to lower Facility fees. This is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole. Income is consistent with the previous year.

(13) Depots income – revenue is higher than the regulator's assumptions across the control period mainly due to extra facilities offered to train operators.

Statement 6b: Analysis of other single till income, London North West

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	53	74	(21)	267	319	(52)	57
Property sales	114	7	107	233	35	198	26
Adjustment for commercial opex	-	(8)	8	-	(36)	36	-
Total property income	**167**	**73**	**94**	**500**	**318**	**182**	**83**
Freight income							
Freight variable usage charge	15	21	(6)	71	94	(23)	14
Freight traction electricity charges	4	8	(4)	19	33	(14)	4
Freight electrification asset usage charge	-	1	(1)	-	3	(3)	-
Freight capacity charge	1	4	(3)	5	12	(7)	1
Freight only line charge	-	1	(1)	1	5	(4)	-
Freight specific charge	-	2	(2)	-	4	(4)	-
Freight other income	1	-	1	2	-	2	1
Freight coal spillage charge	-	1	(1)	-	4	(4)	-
Total freight income	**21**	**38**	**(17)**	**98**	**155**	**(57)**	**20**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	2	2	-	4	6	(2)	2
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**2**	**2**	**-**	**4**	**6**	**(2)**	**2**
Stations income							
Managed stations income							
Long term charge	8	7	1	39	40	(1)	7
Qualifying expenditure	21	16	5	103	80	23	22
Total managed stations income	29	23	6	142	120	22	29
Franchised stations income							
Long term charge	36	37	(1)	178	183	(5)	36
Stations lease income	6	7	(1)	33	31	2	6
Total franchised stations income	42	44	(2)	211	214	(3)	42
Total stations income	**71**	**67**	**4**	**353**	**334**	**19**	**71**
Facility and financing charges							
Facility charges	12	17	(5)	63	80	(17)	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**12**	**17**	**(5)**	**63**	**80**	**(17)**	**12**
Depots income	**15**	**11**	**4**	**67**	**62**	**5**	**12**
Other	**1**	**1**	**-**	**6**	**3**	**3**	**1**
Total other single till income	**289**	**209**	**80**	**1,091**	**958**	**133**	**201**

Statement 6b: Analysis of other single till income (unaudited), London North West – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	65	54	(11)	324	293	(31)	64
Signalling shift managers	3	4	1	17	18	1	4
Local operations managers	3	4	1	18	21	3	2
Controllers	9	8	(1)	42	42	-	9
Electrical control room operators	2	3	1	14	15	1	2
Total signaller expenditure	**82**	**73**	**(9)**	**415**	**389**	**(26)**	**81**
Non-signaller expenditure							
Mobile operations managers	12	8	(4)	59	41	(18)	12
Managed stations	19	9	(10)	87	50	(37)	17
Performance	(2)	4	6	5	19	14	1
Customer relationship executives	4	2	(2)	14	9	(5)	3
Route enhancement managers	4	-	(4)	9	-	(9)	-
Weather	-	5	5	-	25	25	-
Other	-	3	3	10	16	6	-
Operations delivery	3	-	(3)	5	-	(5)	1
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	38	7	(31)	135	37	(98)	33
Other operating income	(12)	(4)	8	(46)	(27)	19	(10)
Total non-signaller expenditure	**66**	**34**	**(32)**	**278**	**170**	**(108)**	**57**
Total network operations expenditure	**148**	**107**	**(41)**	**693**	**559**	**(134)**	**138**
Support costs							
Core support costs							
Human resources	5	15	10	37	82	45	4
Information management	18	14	(4)	90	73	(17)	16
Government and corporate affairs	2	5	3	15	26	11	2
Group strategy	1	1	-	2	6	4	-
Finance	7	7	-	31	39	8	7
Business services	6	3	(3)	26	18	(8)	3
Accommodation	14	12	(2)	76	68	(8)	15
Utilities	15	10	(5)	62	55	(7)	13
Insurance	5	11	6	39	60	21	9
Legal and inquiry	2	2	-	10	8	(2)	2
Safety and sustainable development	5	2	(3)	29	12	(17)	5
Strategic sourcing	3	2	(1)	10	13	3	2
Business change	2	1	(1)	4	5	1	2
Other corporate functions	9	1	(8)	38	5	(33)	7
Core support costs	**94**	**86**	**(8)**	**469**	**470**	**1**	**87**
Other support costs							
Asset management services	7	10	3	41	49	8	7
Network Rail telecoms	11	7	(4)	51	46	(5)	8
National delivery service	-	(1)	(1)	-	2	2	-
Infrastructure Projects	(5)	-	5	(29)	-	29	(7)
Commercial property	(2)	(1)	1	(9)	(4)	5	(2)
Group costs	(4)	(1)	3	(39)	(7)	32	(4)
Total other support costs	**7**	**14**	**7**	**15**	**86**	**71**	**2**
Total support costs	**101**	**100**	**(1)**	**484**	**556**	**72**	**89**
Traction electricity, industry costs and rates							
Traction electricity	88	114	26	389	477	88	77
Business rates	51	48	(3)	224	214	(10)	52
British transport police costs	20	17	(3)	106	90	(16)	21
RSSB costs	2	2	-	12	13	1	2
ORR licence fee and railway safety levy	1	4	3	9	21	12	2
Reporters fees	1	1	-	1	4	3	1
Other industry costs	1	1	-	5	3	(2)	1
Total traction electricity, industry costs and rates	**164**	**187**	**23**	**746**	**822**	**76**	**156**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**413**	**394**	**(19)**	**1,923**	**1,937**	**14**	**383**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumption this year as higher Network operations costs have only been partly offset by lower traction electricity costs. Across the control period, costs have been slightly lower in this statement as higher Network operations costs have been more than offset by lower traction electivity and Support costs. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. There are also some extra managed stations costs as some locations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. There has been additional investment in extra security staff at known hotspots on the network to combat the risk of network trespass and so passenger disruption. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination and the aforementioned commercial settlements made this year.

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

In £m 2018-19 prices unless stated

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Overall, Support costs were in line with the regulatory assumption this year, although there are variances within various components. Over the course of the control period there have substantial savings well in excess of the regulator's targets.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(9) Business services - costs in this category are higher than the determination assumption this year. The higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit numerous front-line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption across the control period. Costs in the year are higher than the previous year due to additional investment in apprentice training and a revamp of training facilities, including introduction of new VR technology and increases in overall training provided to the organisation. Internal training costs are largely borne by Business services which contributes to savings in other parts of the business.

(10) Accommodation – these property expenses were higher than the determination this year, compounding overspends in earlier years of the control period. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would reduce significantly compared to the CP4 exit position by 2017/18 but this has not been possible in the face of market conditions and resource requirements in the control period. There have been some savings made in the control period mainly from moving corporate offices away from London to, for example, Milton Keynes.

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

In £m 2018-19 prices unless stated

(11) Utilities - costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

(12) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(13) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

(14) Strategic Sourcing – costs are lower than the determination assumption across the control period which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business, resulting in extra costs in the Other corporate functions category.

(15) Business change – costs for the control period are lower than the determination. This is because responsibilities for Business change activities resided within other functions in earlier years of the control period (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department was created in 2017/18 to drive efficiencies in the business as it prepares for control period 6.

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

In £m 2018-19 prices unless stated

(16) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

(17) Asset management services – costs are lower than the determination this year partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. The underspend in the control period is largely due to the same factors. Costs are broadly in line with the previous year.

(18) Network Rail telecoms - costs for the year are higher than the determination. This is a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination. The higher costs across the control period are due to the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. Costs this year are higher than the previous year mainly due to the aforementioned increase in activity and a non-recurring benefit from successful close out of a commercial claim in 2017/18 which benefited costs in that year.

(19) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(20) Property – across the control period there have been savings. This has predominantly arisen from extra operating income earned in the route compared to the regulator's expectation. This has included extra income from selling telecoms services and revenue from managed stations concessions and car park income.

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

In £m 2018-19 prices unless stated

(21) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. The credit recognised in Group this year is generally in line with the previous year.

(22) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year mainly due to lower traction electricity costs. Costs across the control period are lower than the regulator expected with lower traction electricity being the dominant factor. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(23) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(24) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency's revaluation exercise.

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

In £m 2018-19 prices unless stated

(25) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year broadly in line with the previous year.

(26) ORR licence fee and railway safety levy – these costs were lower than the regulator assumed, continuing the trend of earlier years of the control period. These savings were partly offset by higher costs in other operating routes with England & Wales. The allocation of this centrally managed activity to each of the operating routes within England & Wales has changed since the assumptions in the CP5 determination to better reflect the driver of these costs and so provide a more accurate position of the route split of these activities.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	67	67	68	72	74
MOMS	12	12	12	13	11
Control	16	13	13	18	17
Planning & Performance Staff Costs	11	12	17	7	9
Managed Stations Staff Costs	6	7	14	8	9
Operations Management Staff Costs	14	16	10	17	18
Other	(2)	18	4	3	10
Total operations & customer services costs	124	145	138	138	148
Total Network Operations	**124**	**145**	**138**	**138**	**148**
Support					
Human resources					
Functional support	6	5	6	3	4
Training (inc Westwood)	2	1	-	-	-
Graduates	-	1	-	-	-
Apprenticeships	2	2	-	-	-
Other	2	1	-	1	1
Total human resources	12	10	6	4	5
Information management					
Support	1	-	2	1	1
Projects	1	-	-	-	-
Licences	-	-	-	-	-
Business operations	20	17	15	15	15
Other	-	-	-	-	2
Total information management	22	17	17	16	18
Finance	5	5	7	7	7
Business Change	1	(1)	-	2	2
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	2	2	2	3
Planning & development	-	1	-	-	1
Safety & compliance	-	-	-	-	-
Other corporate services	4	4	2	6	5
Commercial property	15	12	15	13	12
Infrastructure Projects	(5)	(5)	(7)	(7)	(5)
Route Services	4	4	6	2	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	10	11	13	13	15
Network Rail Telecoms	13	11	8	8	11
Digital Railway	5	5	5	3	3
Safety Technical & Engineering	11	11	9	9	9
Government & Corporate Affairs	5	3	3	2	2
Business Services	5	5	7	3	6
Route Asset Management	-	(1)	(1)	(1)	-
Legal and inquiry	3	2	1	2	2
Group/central					
Pensions	-	-	-	-	-
Insurance	14	14	(2)	9	5
Redundancy/reorganisation costs	4	3	3	3	3
Staff incentives/Bonus Reduction	(6)	(2)	-	(2)	(1)
Accommodation & Support Recharges	(8)	(8)	(8)	(8)	(7)
Commercial claims settlements	-	(2)	-	-	-
ORR financial penalty	(7)	-	-	-	-
Other	-	-	(1)	3	1
Total group/central costs	(3)	5	(8)	5	1
Total support	**108**	**101**	**85**	**89**	**101**
Total network operations and support costs	**232**	**246**	**223**	**227**	**249**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North West

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	**PR13**	**Difference**	**Actual**	**PR13**	**Difference**	**Actual**
Track	169	108	(61)	799	582	(217)	160
Signalling	59	36	(23)	273	192	(81)	58
Civils	37	34	(3)	187	183	(4)	43
Buildings	14	14	-	49	62	13	13
Electrical power and fixed plant	32	23	(9)	155	127	(28)	32
Telecoms	7	3	(4)	34	21	(13)	7
Other network operations	60	46	(14)	235	251	16	46
Asset management services	9	8	(1)	50	43	(7)	7
National Delivery Service	(2)	11	13	(9)	56	65	(2)
Property	-	1	1	6	6	-	-
Group	(7)	(4)	3	(33)	(23)	10	(6)
Total maintenance expenditure	**378**	**280**	**(98)**	**1,746**	**1,500**	**(246)**	**358**

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Expenses are broadly consistent with the previous year.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Across the control period costs have been higher than the regulator assumed. This is a combination of the extra civils inspections, as noted above, and additional Reactive maintenance. This activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is broadly in line the regulatory assumption. Costs for the control period have been lower than the regulator expected. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with 2017/18.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. The extra costs across the control period are largely a result of not achieving the efficiencies assumed in the determination as well as a transfer of certain responsibilities from the Other network operations category. This has helped that category make savings in the control period. Costs are broadly in line with the previous year.

(7) Telecoms - costs are higher that the regulatory assumption across the control period. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.

(8) Other network operations – costs in the year have been higher than the regulator's determination. Costs are lower across the control period as activity assumed to be classified as Other network operations has been reported in the Telecoms and Electrical power and fixed plant categories to improve transparency.

(9) Asset management services – costs are largely consistent with the regulator's assumption this year but higher across the control period. This is mostly due to extra organisational requirements to understand and manage the assets in the route and slower than planned efficiency savings.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2018-19 prices unless stated

(10) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

(11) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, London North West

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	151	136	(15)	886	699	(187)	95
Signalling	116	80	(36)	736	587	(149)	140
Civils	84	109	25	608	548	(60)	94
Buildings	44	33	(11)	227	201	(26)	26
Electrical power and fixed plant	39	28	(11)	146	195	49	33
Telecoms	14	5	(9)	77	106	29	11
Wheeled plant and machinery	15	14	(1)	88	145	57	12
Information Technology	30	19	(11)	153	105	(48)	20
Property	3	4	1	26	22	(4)	3
Other renewals	30	79	49	137	134	(3)	21
Total renewals expenditure	**526**	**507**	**(19)**	**3,084**	**2,742**	**(342)**	**455**

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year and across the control period is higher than the determination expected. The underlying position is one of higher like-for-like costs (notably in Track, Signalling and Civils) offset by deferrals of activity. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are slightly higher than the regulator assumed this year which is due to a higher like for like costs being partly offset by deferral of activity, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Financial underperformance for the control period has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around two-thirds of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. Issues with the reliability resulted in minimal volumes being delivered in the final two years of the control period. There has been lower investment in Switches & Crossings refurbishment works this control period, but this is mostly due to volume reductions, with only around one-third of the anticipated volumes delivered. Expenditure in the current year was higher than the previous year with higher investment across most categories as additional volumes were delivered. This year also saw increases arising from implementing new contracting arrangements for control period 6.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, augmenting the extra investment that had occurred earlier in the control period. The higher spend was caused by higher underlying project costs partly offset by a deferral of activity. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Spend has been higher in the Minor works category which reflects additional investment undertaken by the route to improve asset condition and performance especially in light of the deferral of larger programmes, even though this might not represent the optimal whole-life asset management approach from a cost perspective. The intervention at Banbury has been delivered through this mechanism this control period. The extra like for like costs includes increases in the expected total costs of some large multi-year re-signalling projects, such as Weaver to Wavertree, where contractor delays have compounded already increased costs. Consequently, signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year there is notable extra investment on re-signalling schemes at Birmingham New Street.

(4) Civils – expenditure in the year was lower than the regulator anticipated which was a result of higher underlying costs more than offset by deferral of activity. Across the control period, expenditure was higher than the regular anticipated, which was due to higher like-for-like costs partly mitigated by activity being re-profiled into future control periods. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. The higher underlying expenditure this control period is also impacted by emergency repair works required in the wake of extreme weather damaging the network – most notably remediation works required on the Settle-Carlisle line following a landslip. Expenditure in Earthworks was higher than the regulator assumed across the control period as investment was undertaken in response to emerging asset condition. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated which augmented the higher investment across the control period as a whole. The underlying story, however, is that work has been deferred this control period to offset higher like-for-like costs. These higher costs are mostly a result of additional activity and higher underlying costs. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs this year were higher than 2017/18 and included extra investment at London Euston station.

(6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year offsetting some of the underspends from earlier in the control period. Whilst expenditure across the control period has been less than the regulator assumed, the underlying story is one of higher costs partly mitigated by deferrals of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). The lower expenditure in the control period is due to delays across most of the portfolio The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. There are significant Fixed plant savings as alternative solutions have been sought, including incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Costs are higher than the previous year including works delivered around Liverpool Lime Street as part of the re-signalling work undertaken there.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2018-19 prices unless stated

(7) Telecoms – expenditure in the year was higher than the determination, mitigating some of the underspend experienced in earlier years of the control period. Expenditure for the control period is less than the regulator assumed with contributions from Projects and other and SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in these areas had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed. There has been overspend in the control period on Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference. There has been some minor telecoms financial underperformance this control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year as predicted in last year's Regulatory Financial Statements with minor increases in expenditure across most categories.

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2018-19 prices unless stated

(10) Other renewals include the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Delays at the end of control period 4 and contractor issues have led to slippage in the overall programme, with some work planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).

b. Intelligent infrastructure – expenditure is lower than the regulator assumed across the control period due to delays in implementation earlier in the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in previous year's Regulatory financial statements, Network Rail intended to deliver this programme in a different profile. Consequently, expenditure this year was higher than the regulator assumed, partially offsetting the lower spend levels in earlier years of the control period. Overall, expenditure in the control period was lower than the regulator planned due to delays in delivering the programme. This was partly caused by a need to divert funding to core, front-line renewals in the light of higher like-for-like costs than the regulator expected (as set out in Statement 5). None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects this year include work on Merseyside and between London and Watford.

d. Small plant – investment across the control expenditure is lower than the regulatory assumption which is consistent with the slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. These savings largely arose from prioritising investment of the available funds on front line activity. As Statement 5 demonstrates, the like-for-like costs for renewals were higher the regulator assumed, meaning that additional funding had to be sought from elsewhere in the company's plans. Also, this fund is used to procure many small, bespoke pieces of equipment so items are only purchased if there is a suitable option available, supported by a robust business case. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway which has helped increase the expenditure this year compared to the previous year. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

e. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

f. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

g. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. There is minimal expenditure in the current year as the programme are substantially complete. Across the control period, 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).

h. Other – costs reported in the current year includes a share of the direct support costs to deliver the overall capital programme within the route. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, London North West

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	42	56	14	292	275	(17)
High output renewal	18	13	(5)	178	97	(81)
Plain line refurbishment	11	7	(4)	60	37	(23)
S&C renewal	42	25	(17)	184	144	(40)
S&C refurbishment	6	21	15	25	63	38
Track non-volume	5	8	3	47	54	7
Off track	27	6	(21)	100	29	(71)
Total track	**151**	**136**	**(15)**	**886**	**699**	**(187)**
Signalling						
Full conventional resignalling	71	16	(55)	451	304	(147)
Modular resignalling	-	10	10	-	26	26
ERTMS resignalling	-	13	13	-	18	18
Partial conventional resignalling	13	7	(6)	53	67	14
Targeted component renewal	-	-	-	5	14	9
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	2	1	(1)	3	2	(1)
Operating strategy other capital expenditure	7	-	(7)	53	44	(9)
Level crossings	2	11	9	26	30	4
Minor works	19	13	(6)	132	33	(99)
Centrally managed costs	2	9	7	13	49	36
Other	-	-	-	-	-	-
Total signalling	**116**	**80**	**(36)**	**736**	**587**	**(149)**
Civils						
Underbridges	28	49	21	195	234	39
Overbridges	11	8	(3)	58	42	(16)
Bridgeguard 3	4	-	(4)	24	-	(24)
Major structures	7	1	(6)	33	12	(21)
Tunnels	4	8	4	50	42	(8)
Other assets	8	12	4	51	57	6
Structures other	2	7	5	7	43	36
Earthworks	20	24	4	188	118	(70)
Other	-	-	-	2	-	(2)
Total civils	**84**	**109**	**25**	**608**	**548**	**(60)**
Buildings						
Managed stations	15	3	(12)	30	36	6
Franchised stations	25	25	-	160	141	(19)
Light maint depots	1	2	1	9	6	(3)
Depot plant	-	1	1	2	6	4
Lineside buildings	2	1	(1)	12	4	(8)
MDU buildings	1	1	-	13	7	(6)
NDS depots	-	-	-	1	1	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**44**	**33**	**(11)**	**227**	**201**	**(26)**

Statement 9b: Detailed analysis of renewals expenditure, London North West - continued

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Electrical power and fixed plant						
AC distribution	2	1	(1)	6	18	12
Overhead Line	14	2	(12)	33	28	(5)
DC distribution	1	2	1	10	14	4
Conductor rail	-	-	-	1	3	2
SCADA	4	2	(2)	7	12	5
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	2	6	4	5	16	11
Fixed plant	16	15	(1)	84	104	20
Total electrical power and plant	**39**	**28**	**(11)**	**146**	**195**	**49**
Telecoms						
Operational communications	2	-	(2)	3	5	2
Network	3	2	(1)	7	13	6
SISS	1	1	-	12	25	13
Projects and other	1	1	-	5	38	33
Non-route capital expenditure	7	1	(6)	50	25	(25)
Total telecoms	**14**	**5**	**(9)**	**77**	**106**	**29**
Wheeled plant and machinery						
High output	3	1	(2)	26	31	5
Incident response	-	-	-	-	2	2
Infrastructure monitoring	2	1	(1)	6	6	-
Intervention	1	2	1	19	33	14
Materials delivery	2	-	(2)	13	3	(10)
On track plant	5	3	(2)	14	22	8
Seasonal	-	-	-	1	11	10
Locomotives	-	1	1	-	1	1
Fleet support plant	2	1	(1)	2	7	5
Road vehicles	-	4	4	3	28	25
S&C delivery	-	1	1	4	1	(3)
Total wheeled plant and machinery	**15**	**14**	**(1)**	**88**	**145**	**57**
Information Technology						
IM delivered renewals	28	17	(11)	139	93	(46)
Traffic management	2	2	-	14	12	(2)
Total information technology	**30**	**19**	**(11)**	**153**	**105**	**(48)**
Property						
MDUs/offices	1	3	2	20	16	(4)
Commercial estate	2	1	(1)	6	6	-
Corporate services	-	-	-	-	-	-
Total property	**3**	**4**	**1**	**26**	**22**	**(4)**
Other renewals						
Asset information strategy	5	2	(3)	42	47	5
Intelligent infrastructure	7	6	(1)	17	25	8
Faster isolations	16	9	(7)	26	47	21
LOWS	2	1	(1)	4	2	(2)
Small plant	3	2	(1)	8	14	6
Research and development	2	-	(2)	4	-	(4)
Phasing overlay	-	59	59	-	(1)	(1)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	39	-	(39)
Other	(5)	-	5	(3)	-	3
West Coast	-	-	-	-	-	-
Total other renewals	**30**	**79**	**49**	**137**	**134**	**(3)**
Total renewals	**526**	**507**	**(19)**	**3,084**	**2,742**	**(342)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), London North West – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North West

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	70	43	(27)	282	243	(39)	46
Access charge supplement Income	(36)	(37)	(1)	(206)	(206)	-	(43)
Net (income)/cost	**34**	**6**	**(28)**	**76**	**37**	**(39)**	**3**
Schedule 8							
Performance element income	(1)	-	1	(17)	-	17	(1)
Performance element costs	66	2	(64)	154	7	(147)	39
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**65**	**2**	**(63)**	**137**	**7**	**(130)**	**38**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(20)	(18)	(6)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	3	9	7
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(3)	(12)	(1)
Reporters fees	-	(4)	-
Other industry costs	-	3	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(20)**	**(24)**	**-**

Statement 10: Other information, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, London North West – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Across the control period the difference to the determination is minimal. This year, the performance element costs are greater than the regulator expected as higher like-for-like costs have been partially offset by deferral of activities requiring possessions. As shown in Statement 5a, the like-for-like costs of schedule 4 possessions have been higher than the regulator assumed in the control period 5 determination. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the 2018/19 result being the main reason. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track – Switches & Crossings and Signalling - Full and partial conventional re-signalling) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs.

Statement 10: Other information, London North West – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing, working with the Samaritans and deployment of extra security staff at network hotspots) such disruption affects performance significantly. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets with the current year accounting for most of the variance. The underperformance across the control period has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services. Costs were higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. This year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Freight growth has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. This has been compounded by higher Business rates payable by London North West, stemming from the well-publicised increase in Business rates that influenced results from 2017/18 onwards, but partly mitigated by lower ORR fees.

Statement 11:

There is no Statement 11 required for London North West

Statement 12: Volume incentives, London North West

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(1)	0	75	73	2.7%	1.61	pence per passenger train mile
Passenger farebox (millions)	0	0	2,281	2,197	3.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(10)	(2)	7	8	2.7%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(7)	(1)	7,162	7,463	3.8%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(18)**	**(3)**					

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

Where:

A_t = Actual in year quantity

B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator’s determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) Whilst Network Rail has broadly achieved the regulatory targets for passenger growth this year (both in terms of Passenger train miles and Passenger farebox), it has recognised a loss overall under the volume incentive mechanism. This underperformance is included in the assessment of Network Rail’s financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. Although there has been growth in this area over the control period, the rate of the increase has been much lower than the regulator expected, around half of the 20 per cent expected for Freight gross tonne miles and 3 per cent for Freight train miles compared to a target of 13 per cent over the five-year control period.

Statement 14: Renewals volumes, unit costs and expenditure, London North West

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19 Volume	FY19 Cost	Full Project A Total AFC	Full Project B Total AFV	Full Project $C = A \div B$ Unit Cost	FY18 Volume	FY18 Cost	Full Project A Total AFC	Full Project B Total AFV	Full Project $C = A \div B$ Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	61	42	53	113	469	41	28	119	175	680
	High Output Renewal	km	13	9	10	13	769	-	-	-	-	-
	Plain line Refurbishment	km	39	10	11	43	256	6	7	10	46	217
	S&C Renewal/Refurbishment	point ends	156	34	70	197	355	42	6	19	57	333
	Track Drainage	lm	13,524	13	21	15,160	1	4,780	7	16	6,661	2
	Fencing	km	11	2	31	655	47	52	1	31	678	46
	Slab Track	km	-	-	-	-	-	1	4	10	1	10,000
	Off track	km/No.	15	1	2	25	80	3	-	1	10	100
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**111**	**198**	**-**	**-**	**-**	**53**	**206**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	356	53	173	356	486	159	18	72	159	453
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	40	9	13	42	310	8	2	6	8	750
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	3	3	7	3	2,333
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**62**	**186**	**-**	**-**	**-**	**23**	**85**	**-**	**-**
Civils	Underbridges	m^2	7,585	10	19	12,871	1	17,493	15	39	30,301	1
	Overbridges (incl BG3)	m^2	3,344	12	17	3,956	4	1,774	6	11	1,774	6
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	8,323	2	9	18,895	0	6,340	7	11	10,024	1
	Culverts	m^2	903	1	4	933	4	442	-	1	442	2
	Footbridges	m^2	157	1	3	157	19	92	1	2	92	22
	Coastal & Estuarial Defences	m	1,640	2	4	1,640	2	345	-	1	345	3
	Retaining Walls	m^2	416	1	1	416	2	781	1	3	781	4
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	219	5	10	398	25	319	14	48	680	71
	EW Drainage	m	15,300	4	6	16,011	0	10,628	5	7	15,947	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**38**	**73**	**-**	**-**	**-**	**49**	**123**	**-**	**-**
Buildings	Buildings (MS)	m^2	380	1	1	650	2	672	-	1	774	1
	Platforms (MS)		1,500	1	1	1,500	1	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	308	1	1	308	3	-	-	-	-	-
	Buildings (FS)	m^2	880	1	1	880	1	190	-	1	210	5
	Platforms (FS)	m^2	32,137	7	7	34,747	0	1,902	-	2	3,622	1
	Canopies (FS)	m^2	750	-	-	750	-	118	-	-	118	-
	Train sheds (FS)	m^2	-	-	-	-	-	10,837	3	13	10,837	1
	Footbridges (FS)	m^2	321	-	-	321	-	85	1	2	85	24
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		8,978	-	2	13,198	0	38,593	1	1	51,246	0
	Light Maintenance Depots	m^2	10,974	-	1	10,974	0	-	2	1	3	333
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	(4,695)	2	4	2,975	1	1,929	1	4	9,701	0
	MDU Buildings	m^2	2,915	-	1	3,454	0	9,655	1	4	10,406	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**13**	**19**	**-**	**-**	**-**	**9**	**29**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	1	-	1	7	143
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	8	1	2	8	250
	HV cables DC	km	1	-	1	5	200	1	-	1	4	250
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	4	-	3	75	40	62	-	6	139	43
	Signalling Power Cables	km	97	9	51	171	298	21	6	48	121	397
	Signalling Supply Points	No.	-	-	2	-	-	1	-	1	20	50
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**9**	**57**	**-**	**-**	**-**	**7**	**59**	**-**	**-**
Telecoms	Customer Information Systems	No.	25	-	1	404	2	379	1	3	404	7
	Public Address	No.	5	-	1	114	9	624	-	4	629	6
	CCTV	No.	42	-	2	535	4	493	-	2	535	4
	Other Surveillance	No.	3	1	1	4	250	1	-	-	2	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	4	-	-	4	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**1**	**5**	**-**	**-**	**-**	**1**	**9**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable decrease in the unit cost for conventional plain line renewal. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small. There is an increase in the unit cost for plain line refurbishment but the previous comment about complexity and location is still valid making analysis difficult is still valid.

(3) Signalling – The unit cost for partial conventional re-signalling dramatically decreased in the year. However, there was only one project in the prior year which means that the sample size was too small to do any meaningful analysis.

(4) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole.

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

In £m 2018-19 prices unless stated

(5) Buildings – There has been a decrease in the unit cost for franchise stations buildings. There were three projects in the year at Tamworth, Moorside and Wolverhampton compared to just one at Wigan in the prior year. This lower sample size makes comparisons between the years difficult.

(6) Electrical Power and Fixed Plant – there has been a slight decrease in the unit cost of HV cables DC. However, there was only one project which spanned both years. The project delivered only five volumes, so the sample size was too small to do any meaningful analysis. There has been a decrease in the unit cost of signalling power cables. This is because there were two new less expensive projects in the year (Liverpool Lime Street and Weaver to Wavertree). The impact of these projects compared to last year when there was just one project has lowered the unit rate.

(7) Telecoms – There was a decrease in the unit cost for customer information screens in the year however there was only one project which ran over both years. Whilst the predicted volumes stayed the same between the years the final expenditure was lower than expected which led to a reduction in unit cost.

Statement 1: Summary regulatory financial performance, Sussex

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	176	177	(1)	987	985	2	200
Fixed Income	34	34	-	97	98	(1)	17
Variable Income	114	123	(9)	533	568	(35)	103
Other Single Till Income	209	103	106	559	466	93	95
Opex memorandum account	(6)	-	(6)	(20)	-	(20)	(5)
Total Income	**527**	**437**	**90**	**2,156**	**2,117**	**39**	**410**
Operating expenditure							
Network operations	73	29	(44)	314	164	(150)	70
Support costs	33	31	(2)	151	162	11	30
Traction electricity, industry costs and rates	58	72	14	280	323	43	53
Network maintenance	81	54	(27)	375	306	(69)	77
Schedule 4	27	14	(13)	115	72	(43)	19
Schedule 8	18	-	(18)	138	-	(138)	22
Total operating expenditure	**290**	**200**	**(90)**	**1,373**	**1,027**	**(346)**	**271**
Capital expenditure							
Renewals	289	172	(117)	1,019	859	(160)	159
PR13 enhancement expenditure	62	31	(31)	474	398	(76)	98
Non PR13 enhancement expenditure	10	-	(10)	16	-	(16)	1
Total capital expenditure	**361**	**203**	**(158)**	**1,509**	**1,257**	**(252)**	**258**
Other expenditure							
Financing costs	132	119	(13)	549	530	(19)	137
Corporation tax (received)/paid	-	1	1	-	2	2	-
Total other expenditure	**132**	**120**	**(12)**	**549**	**532**	**(17)**	**137**
Total expenditure	**783**	**523**	**(260)**	**3,431**	**2,816**	**(615)**	**666**

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income in the year and control period was broadly in line with the regulatory expectation. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income in the year and control period was broadly in line with the regulatory expectation. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected which has been more than offset by lower than expected Business rates. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Support costs are higher than the determination this year, but there have substantial savings well in excess of the regulator's targets across the control period. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) and lower Business rates. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator’s assumption. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track Switches & Crossings and Signalling). Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator’s targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling, Civils and Buildings) and net acceleration of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period and utilise available resources. Renewals costs are discussed in more detail in Statement 9a.

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but the impact of Sussex traction power supply upgrade is notable. Expenditure across the control period has been higher than the baseline which reflects higher underlying costs (as set out in Statement 5) partly offset by deferral of activity on certain schemes into future control periods. Expenditure is lower than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with a notable contribution from Redhill additional platforms. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator’s CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. Expenditure is higher than the previous year mainly due to schemes on the Brighton Main Line. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are higher than the determination expected due to higher levels of average debt in the year partly offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are higher than the regulatory target mainly due to the same factors. Costs are slightly lower than the previous year as higher levels of debt have been offset by lower interest costs. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Sussex

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**3,120**	**2,932**	**188**
Indexation to 2017-18 prices	384	361	23
Opening RAB for the year (2017-18 prices)	**3,504**	**3,293**	**211**
Indexation for the year	112	105	7
Opening RAB (2018-19 prices)	**3,616**	**3,398**	**218**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	268	172	96
PR13 enhancements	68	40	28
Non-PR13 enhancements	10	-	10
Total enhancements	78	40	38
Amortisation	(163)	(163)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**3,799**	**3,447**	**352**

RAB Regulatory financial position - cumulative, Sussex

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**3,034**	**3,248**	**3,402**	**3,519**	**3,616**	**3,034**
Adjustments for the actual capital expenditure outturn in CP4	87	-	-	-	-	87
Renewals	166	198	174	157	268	963
PR13 enhancements	111	106	99	103	68	487
Non-PR13 enhancements	1	1	1	1	10	14
Total enhancements	112	107	100	104	78	501
Amortisation	(151)	(151)	(157)	(164)	(163)	(786)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-	-
Closing RAB	**3,248**	**3,402**	**3,519**	**3,616**	**3,799**	**3,799**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is partly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional enhancement investment, largely following the Hendy review outcome (refer to Statement 3).

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3). Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Sussex

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**182**	**170**	**155**	**182**	**172**	**861**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	60	-	-	-	-	60
Capitalised financing on CP4 deferrals	1	2	3	3	3	12
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**243**	**172**	**158**	**185**	**175**	**933**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(121)	(6)	(18)	(40)	27	(158)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(6)	(7)	(8)	(28)
Adjustments for efficient overspend	57	44	42	17	86	246
Capitalised financing on efficient overspend	1	3	6	7	9	26
25% retention of efficient overspend	(15)	(11)	(8)	(4)	(22)	(60)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(2)	(6)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	1	-	2	9
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	-	-	1	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**166**	**198**	**174**	**157**	**268**	**963**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	1	(1)	(1)	(2)	(3)
Adjustment for 25% retention of efficient overspend	15	10	8	3	22	58
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	(2)	-	2	-	1	1
Total actual renewals expenditure (see statement 9)	**179**	**209**	**183**	**159**	**289**	**1,019**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**72**	**60**	**95**	**71**	**40**	**338**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	7	(7)	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	43	(20)	45	(9)	59
Capitalised financing on Baseline adjustments	-	1	1	2	4	8
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**79**	**97**	**76**	**118**	**35**	**405**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	32	2	5	(14)	24	49
Capitalised financing on acceleration / (deferrals) of expenditure	1	-	2	1	2	6
Adjustments for efficient overspend / (underspend)	-	-	4	2	(2)	4
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-	-
25% retention of efficient overspend / (underspend)	-	-	(1)	(1)	1	(1)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	8	13	(5)	7	23
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(1)	(1)	1	-	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1	1	3
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	(1)	-	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**111**	**106**	**99**	**103**	**68**	**487**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	1	1	9	14
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-	1	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	(1)	-	-	-	-	(1)
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**1**	**1**	**1**	**1**	**10**	**14**
Total enhancements (added to the RAB - see statement 2a)	**112**	**107**	**100**	**104**	**78**	**501**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(4)	(4)	(6)	(17)
Adjustment for 25% retention of efficient overspend	1	1	3	-	-	5
Other Adjustments	1	-	-	-	-	1
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure	-	-	-	-	-	-
Third party funded schemes	17	11	3	47	93	171
Other adjustments	-	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	**130**	**117**	**102**	**147**	**165**	**661**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period. This year, there was acceleration compared to the regulatory expectation as some of the deferral from earlier years of the control period was reversed.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling, Civils and Buildings projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

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

In £m 2018-19 prices unless stated

(11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.

(12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Thameslink and Redhill platform works this control period. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. The Thameslink programme has its own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

(16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. The largest item of investment this year relates to upgrades of the Brighton Mainline.

Statement 3: Analysis of enhancement capital expenditure, Sussex

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	(2)	(4)	8	8	-
Stations - Access for All (AfA)	-	1	1	3	3	-
Development	1	18	17	46	50	4
Level crossing safety	2	(2)	(4)	6	6	-
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	-	-	-	-	-
Total funds	**5**	**15**	**10**	**63**	**67**	**4**
Committed projects						
Thameslink	8	3	(5)	106	54	(52)
Total committed projects	**8**	**3**	**(5)**	**106**	**54**	**(52)**
Named schemes						
Airports & Ports:						
Redhill additional platform	1	-	(1)	60	59	(1)
Total airports & Ports	**1**	**-**	**(1)**	**60**	**59**	**(1)**
HLOS capacity metric schemes						
Uckfield line train lengthening	-	(1)	(1)	21	20	(1)
Sussex traction power supply upgrade	33	17	(16)	118	125	7
London Victoria station capacity improvements	-	-	-	1	1	-
Total HLOS capacity metric schemes	**33**	**16**	**(17)**	**140**	**146**	**6**
CP4 Project Rollovers						
Battersea Park Station Planform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**-**	**-**	**-**	**5**	**7**	**2**
Other projects						
Seven day railway projects	-	(1)	(1)	15	15	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	(1)	(1)	-	-	-
Income generating property schemes	15	(1)	(16)	95	50	(45)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(10)	-	10
Total other projects	**15**	**(3)**	**(18)**	**100**	**65**	**(35)**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**62**	**31**	**(31)**	**474**	**398**	**(76)**
B) Investments not included in PR13						
Government sponsored schemes						
Brighton ML Upgrade	9	-	(9)	9	-	(9)
Other government sponsored schemes	1	-	(1)	4	-	(4)
Total Government sponsored schemes	**10**	**-**	**(10)**	**13**	**-**	**(13)**
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	**10**	**-**	**(10)**	**16**	**-**	**(16)**
Total Network Rail funded enhancements (see Statement 1)	**72**	**31**	**(41)**	**490**	**398**	**(92)**
Third Party PAYG	**93**	**-**	**(93)**	**171**	**-**	**(171)**
Total enhancements (see statement 2b)	**165**	**31**	**(134)**	**661**	**398**	**(263)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £72m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£165m) less the PAYGO schemes funded by third parties (£93m).

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

In £m 2018-19 prices unless stated

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was lower than the baseline. As a result, expenditure across the control period is now lower than the Henday expectation. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is similar to the Hendy baseline across the control period. Notable projects this year included Tulse Hill and Eastbourne stations.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although there was no investment in the current year, expenditure across the control period is consistent with the Hendy baseline.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is much lower than the baseline which has meant that across the control period less has been spent on this fund. Investment in the fund this year was minimal as most of the work had been carried out earlier in the control period.

d. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure across the control period was in line with the Hendy baseline.

(6) PR13 funded schemes – Committed Projects – the only programme in this category in Sussex is Thameslink. The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and the control period is higher than the baseline which includes underperformance and is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

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

In £m 2018-19 prices unless stated

(7) PR13 funded schemes – named schemes – there is only one programme in this category: Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Expenditure across the control period is in line with the Hendy review expectations. However, this is mainly due to a reduction in the outputs delivered in CP5. Extra work has been required from to meet timetable commitments resulting in higher underlying project costs. As a result, financial underperformance has been reported for CP5 (refer to Statement 5c).

(8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline. Despite this catch up, investment across the control period is lower than the Hendy assumption. The following notable variances between expenditure and baselines are set out below:

a. Uckfield line train lengthening - the key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure across the control period is broadly in line with the determination. Expenditure in the year is minimal as the programme is substantially complete.

b. Sussex traction power supply upgrade - the principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic of the Thameslink Programme. Expenditure for the control period is lower than the Hendy baseline. This is mostly due to the recognition of financial outperformance (refer to Statement 5a).

c. London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.

(9) Other CP4 Rollover – this mostly consists of: Gatwick Airport Remodelling and Passenger Capacity. This is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure is broadly line with the Hendy baseline for the control period. Expenditure in the current year is minimal as this programme is substantially.

(10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is higher than the baseline due to extra investment in property schemes partly offset by the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:

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

In £m 2018-19 prices unless stated

a. Seven day railway projects – expenditure is in line with the baseline in the current year as the programme is now substantially complete.

b. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year and across the control period is higher than the regulator's target. Expenditure for the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Investment earlier in the control period includes investment at Haywards Heath station. This year, the main item if investment is purchases of items around East station to facilitate long-term strategic operations around station redevelopments in that area.

c. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by a corresponding amount (refer to Statement 2a).

(11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main investment in the current year and the control period relates to improvement works undertaken on the Brighton main line.

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. PAYGO – the investment in the current year related to work undertaken on the Thameslink part of the network to improve passenger journeys. This is part of the package of measures announced by the government to improve services on this part of the network following disruption caused to passengers through industrial action in 2016/17. This year also included some re-modelling work in the Croydon area to improve train service resilience

Statement 4: Net debt and financial ratios, Sussex

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**2,850**	**2,372**	**(478)**	**1,846**	**1,804**	**(42)**
Income						
Grant income	(176)	(177)	(1)	(930)	(927)	3
Fixed charges	(34)	(34)	-	(92)	(92)	-
Variable charges	(114)	(123)	(9)	(504)	(538)	(34)
Other single till income	(209)	(103)	106	(536)	(442)	94
Total income	**(533)**	**(437)**	**96**	**(2,062)**	**(1,999)**	**63**
Expenditure						
Network operations	73	29	(44)	298	155	(143)
Support costs	33	31	(2)	140	156	16
Traction electricity, industry costs and rates	58	72	14	263	306	43
Network maintenance	81	54	(27)	354	287	(67)
Schedule 4	27	14	(13)	110	67	(43)
Schedule 8	18	-	(18)	129	-	(129)
Renewals	289	172	(117)	966	809	(157)
PR13 enhancement	62	40	(22)	445	318	(127)
Non-PR13 enhancement	10	-	(10)	16	-	(16)
Total expenditure	**651**	**412**	**(239)**	**2,721**	**2,098**	**(623)**
Financing						
Interest expenditure on nominal debt - FIM covered	14	45	31	105	179	74
Interest expenditure on index linked debt - FIM covered	15	16	1	69	76	7
Expenditure on the FIM	15	27	12	86	120	34
Interest expenditure on government borrowing	61	-	(61)	151	-	(151)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(2)	(7)	(5)
Total interest costs	**104**	**86**	**(18)**	**409**	**368**	**(41)**
Accretion on index linked debt - FIM covered	28	33	5	118	162	44
Total financing costs	**132**	**119**	**(13)**	**527**	**530**	**3**
Corporation tax	-	1	1	-	2	2
Other	(5)	-	5	63	32	(31)
Movement in net debt	**245**	**95**	**(150)**	**1,249**	**663**	**(586)**
Closing net debt	**3,095**	**2,467**	**(628)**	**3,095**	**2,467**	**(628)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	0.31	-0.19	-0.55	-0.20	0.77	0.84
FFO/interest	2.95	2.94	2.65	1.47	2.34	2.73
Net debt/RAB (gearing)	70.1%	73.0%	77.4%	81.4%	81.5%	71.6%
FFO/debt	7.6%	5.5%	4.1%	4.9%	7.9%	9.6%
RCF/debt	4.4%	2.6%	1.1%	1.6%	4.5%	6.1%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 Sussex has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years. Despite the high levels of investment this year, the increase in net debt was constrained by the receipts from the asset divestment programme generated this year.

(3) Net debt attributable to Sussex at 31 March 2019 is £0.6bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. These extra cash outflows have been partly mitigated by benefits from asset divestment recognised this year.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation which has been partly offset by lower effective interest rates. Expenses across the control period are broadly in line the regulatory target as higher levels of average net debt have been offset by lower interest costs.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed this control period largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) along with lower inflation rates this year than the regulator assumed. These factors have also influenced the lower costs across the control period. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year which reflects the lower inflation rates experienced in the current year.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16)Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected that Network Rail would not be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). This year, the ratio was close to the regulatory expectation. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was negative, in other words, there was net cash outflows this year. This was mainly due to higher Schedule 8, Network operations and Maintenance costs as described elsewhere in these accounts. In addition, for the purpose of this ratio, interest costs exclude accretion. As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio. The decline in the underlying ratio compared to the previous year is mostly due to higher costs under the performance regime (schedule 4 and schedule 8) and higher operating costs, as well as higher non-accreting interest costs this year as the level of DfT issued debt increases

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

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

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings and receipts from the asset divestment programme. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail’s business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. In the current year, the result was lower than the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result decreases further, to around 4 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator’s expectation but also due to higher net operational costs throughout the control period and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4. The decline in the underlying ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator’s efficiency targets for Maintenance, Network Operations and Schedule 8, which all get harder with each passing year, as well as extra Schedule 4 costs arising from additional renewals delivered this year.

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

In £m nominal unless otherwise stated

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Sussex

In £m 2018-19 prices unless stated

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
					2018-19				
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	176	177	(1)	-	(1)	-	-	-	-
Fixed Income	34	34	-	-	-	-	-	-	-
Variable Income	74	72	2	-	-	-	-	2	2
Other Single Till Income	209	103	106	-	114	-	-	(8)	(8)
Opex memorandum account	(6)	-	(6)	-	(4)	-	-	(2)	(2)
Total Income	**487**	**386**	**101**	**-**	**109**	**-**	**-**	**(8)**	**(8)**
Expenditure									
Network operations	73	29	(44)	-	-	-	-	(44)	(44)
Support costs	33	31	(2)	-	1	-	-	(3)	(3)
Industry costs and rates	18	19	1	-	3	-	-	(2)	(2)
Traction electricity	-	1	1	-	-	-	-	1	1
Reporter's fees	-	1	1	-	1	-	-	-	-
Network maintenance	81	54	(27)	-	-	(6)	-	(21)	(21)
Schedule 4 costs	27	14	(13)	-	-	(2)	-	(11)	(11)
Schedule 8 costs	18	-	(18)	-	-	-	-	(18)	(18)
Renewals	289	172	(117)	-	34	(63)	-	(88)	(22)
PR13 Enhancements	62	31	(31)	-	-	(26)	-	(5)	(1)
Non PR13 Enhancements	10	-	(10)	-	-	(10)	-	-	-
Financing Costs	132	119	(13)	-	(13)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	-	(1)	-	2	2
Total Expenditure	**743**	**472**	**(271)**	**-**	**26**	**(108)**	**-**	**(189)**	**(119)**
Total:			**(170)**		**135**	**(108)**	**-**	**(197)**	**(127)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(127)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(61)
Under-delivery of train performance requirements (CaSL)	(29)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(90)**
Total financial out / (under) performance to be recognised	**(217)**

Statement 5a: Total financial performance, Sussex - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	987	985	2		2	-	-	-	-
Fixed Income	97	98	(1)		(1)	-	-	-	-
Variable Income	344	346	(2)		-	-	-	(2)	(2)
Other Single Till Income	559	466	93		114	-	-	(21)	(21)
Opex memorandum account	(20)	-	(20)		(13)	-	-	(7)	(7)
Total Income	**1,967**	**1,895**	**72**		**102**	**-**	**-**	**(30)**	**(30)**
Expenditure									
Network operations	314	164	(150)		-	-	-	(150)	(150)
Support costs	151	162	11		3	-	-	8	8
Industry costs and rates	86	92	6		13	-	-	(7)	(7)
Traction electricity	5	8	3		-	-	-	3	3
Reporter's fees	-	1	1		1	-	-	-	-
Network maintenance	375	306	(69)		-	(3)	-	(66)	(66)
Schedule 4 costs	115	72	(43)		-	1	-	(44)	(44)
Schedule 8 costs	138	-	(138)		-	-	-	(138)	(138)
Renewals	1,019	859	(160)		41	47	-	(248)	(62)
PR13 Enhancements	474	398	(76)		-	(47)	-	(29)	(4)
Non PR13 Enhancements	16	-	(16)		-	(16)	-	-	-
Financing Costs	549	530	(19)		(19)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	2	2		-	-	-	2	2
Total Expenditure	**3,242**	**2,594**	**(648)**		**39**	**(18)**	**-**	**(669)**	**(458)**
Total:			**(576)**		**141**	**(18)**	**-**	**(699)**	**(488)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(488)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(218)
Under-delivery of train performance requirements (CaSL)	(91)
Missed milestones for asset management - data quality	(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)	(2)
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(312)**
Total financial out / (under) performance to be recognised	**(800)**

Statement 5a: Total financial performance, Sussex - continued

In £m 2018-19 prices unless stated

	2018-19			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	(40)	(51)	11	(189)	(222)	33
Total variance not included in total financial performance:	**(40)**	**(51)**	**11**	**(189)**	**(222)**	**33**
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Property Divestment	114	-	114	114	-	114
Total variance not included in total financial performance:	**114**	**-**	**114**	**114**	**-**	**114**
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	1	-	1	2	-	2
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total financial performance:	**1**	**-**	**1**	**3**	**-**	**3**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	40	51	(11)	189	222	(33)
Total variance not included in total financial performance:	**40**	**51**	**(11)**	**189**	**222**	**(33)**
Breakdown of variance not included in total financial performance - Renewals:						
Thameslink Resilience Programme	34	-	34	34	-	34
Investment of CP4 long distance financial penalty	-	-	-	7	-	7
Total variance not included in total financial performance:	**34**	**-**	**34**	**41**	**-**	**41**

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail’s financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR’s Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator’s determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the minor variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Variable income – across the control period, income earned is broadly in line with the regulatory targets. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(3) Other single till income – this year, financial underperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The underperformance recognised in Other single till income this year is mainly the result of lower Property rental income, continuing the trend of the earlier years of the control period. The lower Property rental income has come from not meeting the targets in the determination which assumed that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. The issues experienced in the current year are the same drivers of the underperformance in the control. Other single till income is set out in more detail in Statement 6a.

(4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Generally, targets have been achieved this control period. The exception is Passenger farebox, where the growth in revenue from passengers for the industry as a whole has not matched the regulator's challenging assumptions. Consequently, financial underperformance has been recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

(5) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Finally, this year has been impacted by commercial claims.

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(6) Support costs – Support costs are slightly higher than the determination this year but across the control period the regulatory targets for savings has been surpassed. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

(7) Industry costs and rates – the negative FPM in the year (and for the control period) is mainly caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period arise from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is offset by lower electrification receipts in from freight operators (which are reported within the Other single till income variance).

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(9) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

(10) Schedule 4 costs – this year costs are greater than the regulator expected which is mainly due to higher like-for-like costs, continuing the pattern from earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events. Variances in Schedule 4 arising from differences in the volume of renewals activity undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(11) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Performance this year was also impacted by the prolonged hot weather in the summer months. These unexpectedly high temperatures led to track geometry issues, resulting in slower travelling speeds. On such a congested network, the knock-on delays were substantial. The hot weather also adversely impacted asset performance, leading to issues with signalling and electrification equipment, resulting in service disruptions whilst repairs were made. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(12) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

(13) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with a notable contribution this year from Thameslink. The control period position is largely dominated by Thameslink and Redhill additional platform programme. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(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. 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 this control period are higher than the regulator expected with most of the difference arising in the current year. This is mainly due to higher average net debt levels compared to the assumption in the regulators' PR13 partly offset by lower interest rates (notably inflation which impacts accreting debt). This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Sussex – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2018/19, continuing the trend of earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this control period.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(16)	16	(32)	(8)	-	(8)	-	-
Signalling	(24)	4	(28)	(7)	-	(6)	(1)	-
Civils	(3)	9	(12)	(3)	-	(3)	-	-
Buildings	(35)	(23)	(12)	(3)	-	(3)	-	-
Electrical power and fixed plant	(2)	(2)	-	-	-	1	(1)	-
Telecoms	(2)	(2)	-	-	-	-	-	-
Wheeled plant and machinery	-	-	-	-	-	-	-	-
IT	(1)	(1)	-	-	-	-	-	-
Property	1	1	-	-	-	-	-	-
Other renewals	(35)	(31)	(4)	(1)	-	(1)	-	-
Total	**(117)**	**(29)**	**(88)**	**(22)**	**-**	**(20)**	**(2)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(39)	49	(88)	(22)	-	(23)	1	-
Signalling	14	90	(76)	(19)	-	(15)	(4)	-
Civils	(61)	7	(68)	(17)	-	(16)	(1)	-
Buildings	(20)	8	(28)	(7)	-	(3)	(4)	-
Electrical power and fixed plant	23	15	8	2	-	8	(6)	-
Telecoms	10	10	-	-	-	1	(1)	-
Wheeled plant and machinery	16	16	-	-	-	-	-	-
IT	(7)	(7)	-	-	-	-	-	-
Property	10	10	-	-	-	-	-	-
Other renewals	(106)	(110)	4	1	-	1	-	-
Total	**(160)**	**88**	**(248)**	**(62)**	**-**	**(47)**	**(15)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year, around 10 per cent of which was foretold in Network Rail’s CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Of the financial underperformance reported for the control period, approximately one-third was expected in Network Rail’s Business Plan for CP5. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail’s plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Concerns around the suitability of High Output delivery has meant that the route has undertaken minimal activity in the past two years but still faces costs. The High Output system was insourced during the control period, meaning that fixed costs have to be met, even if no activity occurs. Like-for-like costs are also higher due to changes in asset management policy. Better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

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

In £m 2018-19 prices unless stated

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network.

(5) Buildings – financial underperformance has been reported once more for this category this year. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty.

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

In £m 2018-19 prices unless stated

(6) Electrical power and fixed plant – this control period financial outperformance has been generated overall. This was largely driven by lower LV cable and Principle supply point unit costs compared to the regulatory baseline, which has been achieved through favourable procurement and delivery.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	(1)	(3)	-	2	1
Thameslink	(5)	2	-	(7)	(1)
Seven day railway	(1)	-	-	(1)	(1)
Sussex traction power supply upgrade	(16)	(17)	-	1	-
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	1	1	-	-	-
Other Enhancements	(19)	(19)	-	-	-
Total	**(41)**	**(36)**	**-**	**(5)**	**(1)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	(1)	13	-	(14)	(3)
Thameslink	(52)	(28)	-	(24)	(3)
Seven day railway	-	-	-	-	-
Sussex traction power supply upgrade	7	(1)	-	8	2
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	-	-	-	-	-
Other Enhancements	(46)	(47)	-	1	-
Total	**(92)**	**(63)**	**-**	**(29)**	**(4)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Thameslink – programme costs are expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. Higher contractor close out costs for London Bridge also added to the programme expenditure, as did the elongation of the programme. These reasons have led to negative FPM being declared in both the current year and across the control period. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed in CP6 to deliver the remainder of the programme.

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

In £m 2018-19 prices unless stated

(2) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised in the control period. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which has prolonged project timescales. The minor benefit recognised this year is a result of a reduction in programme costs following successful close out or commercial disputes.

(3) Sussex traction power supply upgrade – some savings have been achieved this control period against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control pf programme contingencies.

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

Statement 5d: Total financial performance - REBS performance, Sussex

In £m 2018-19 prices unless stated

	A	B	C	D	E	F	G
			Cumulative to 2018-19				
	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	51	50	1	-	-	-	1
Capacity charge	231	235	(4)	-	-	-	(4)
Electricity asset utilisation charge	5	5	-	-	-	-	-
Property income	214	227	(13)	-	-	-	(13)
Expenditure							
Network operations	314	155	(159)	-	-	-	(159)
Support costs	151	160	9	-	1	-	8
RSSB and BT Police	33	28	(5)	-	-	-	(5)
Network maintenance	375	309	(66)	(5)	-	-	(61)
Schedule 4 costs	115	63	(52)	(8)	-	-	(44)
Schedule 8 costs	138	-	(138)	-	-	-	(138)
Renewals	1,019	789	(230)	18	-	(186)	(62)
Total REBS performance			**(657)**	**5**	**1**	**(186)**	**(477)**

Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(218)
Under-delivery of train performance requirements (CaSL)	(91)
Missed milestones for asset management - data quality	(1)
Missed ORBIS milestones	(2)
Total adjustment for under delivery of outputs and reduced sustainability	**(312)**
Cumulative performance to end of 2018-19	**(789)**
Less cumulative outperformance recognised up to the end of 2017-18	(577)
Net REBS performance for 2018-19	**(212)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**176**	**177**	**(1)**	**987**	**985**	**2**	**200**
Franchised track access income							
Fixed charges	**34**	**34**	**-**	**97**	**98**	**(1)**	**17**
Variable charges							
Variable usage charge	11	10	1	51	48	3	11
Traction electricity charges	40	51	(11)	189	222	(33)	36
Electrification asset usage charge	1	1	-	5	5	-	1
Capacity charge	48	47	1	231	235	(4)	46
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	14	14	-	57	58	(1)	9
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**114**	**123**	**(9)**	**533**	**568**	**(35)**	**103**
Total franchised track access income	**148**	**157**	**(9)**	**630**	**666**	**(36)**	**120**
Total franchised track access and grant income	**324**	**334**	**(10)**	**1,617**	**1,651**	**(34)**	**320**
Other single till income							
Property income	163	58	105	335	253	82	46
Freight income	-	1	(1)	-	4	(4)	-
Open access income	-	-	-	-	-	-	-
Stations income	31	31	-	152	151	1	30
Facility and financing charges	3	4	(1)	14	17	(3)	3
Depots Income	11	8	3	54	38	16	15
Other income	1	1	-	4	3	1	1
Total other single till income	**209**	**103**	**106**	**559**	**466**	**93**	**95**
Total income	**533**	**437**	**96**	**2,176**	**2,117**	**59**	**415**

Statement 6a: Analysis of income, Sussex – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity) and lower property rental income (due to not achieving growth expected by the regulator). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail’s commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the items noted above, namely lower traction electricity income and lower property rental income. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is slightly higher than 2017/18 with the largest contribution from higher electricity charges to operators (which is offset by extra operating costs as set out in Statement 7a).

Statement 6a: Analysis of income, Sussex – continued

In £m 2018-19 prices unless stated

(3) Grant income – minor variances exist between the grant income received in the control period and the amounts assumed in the determination. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

As these variances are the result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Grant income is lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

(4) Fixed charges – fixed charge income was broadly in line with the regulatory expectation this year and across the control period. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

(6) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income is higher than the previous year, which was in line with the regulator's assumption.

Statement 6a: Analysis of income, Sussex – continued

In £m 2018-19 prices unless stated

(7) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Sussex route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income has been lower than the determination target this year as lower business as usual property sales partly has been augmented by lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is lower than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is lower than the regulator assumed due to lower property rental income has fewer property disposals. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was similar to the previous year.

(8) Freight Income – this is below the regulator's determination this control period due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance.

(9) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this control period due to lower Facility fees. This is due to Network Rail undertaking less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower in the current year and the control period as a whole.

(10) Depots income – revenue is higher than the regulator's assumptions in both the current year and across the control period mainly due to extra facilities offered to train operators. Income earned is slightly less than the previous year which benefitted from a settlement of historic claims.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	41	57	(16)	200	247	(47)	41
Property sales	122	6	116	135	28	107	5
Adjustment for commercial opex	-	(5)	5	-	(22)	22	-
Total property income	**163**	**58**	**105**	**335**	**253**	**82**	**46**
Freight income							
Freight variable usage charge	-	1	(1)	-	2	(2)	-
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	-	-	-	-	1	(1)	-
Total freight income	**-**	**1**	**(1)**	**-**	**4**	**(4)**	**-**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stations income							
Managed stations income							
Long term charge	6	5	1	28	25	3	5
Qualifying expenditure	6	4	2	27	22	5	5
Total managed stations income	12	9	3	55	47	8	10
Franchised stations income							
Long term charge	14	17	(3)	73	82	(9)	15
Stations lease income	5	5	-	24	22	2	5
Total franchised stations income	19	22	(3)	97	104	(7)	20
Total stations income	**31**	**31**	**-**	**152**	**151**	**1**	**30**
Facility and financing charges							
Facility charges	3	4	(1)	14	17	(3)	3
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**3**	**4**	**(1)**	**14**	**17**	**(3)**	**3**
Depots income	**11**	**8**	**3**	**54**	**38**	**16**	**15**
Other	**1**	**1**	**-**	**4**	**3**	**1**	**1**
Total other single till income	**209**	**103**	**106**	**559**	**466**	**93**	**95**

Statement 6b: Analysis of other single till income (unaudited), Sussex – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	31	15	(16)	145	86	(59)	30
Signalling shift managers	2	1	(1)	12	5	(7)	2
Local operations managers	2	1	(1)	6	6	-	2
Controllers	4	2	(2)	18	12	(6)	4
Electrical control room operators	2	1	(1)	10	4	(6)	2
Total signaller expenditure	**41**	**20**	**(21)**	**191**	**113**	**(78)**	**40**
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	13	13	-	3
Managed stations	6	3	(3)	30	15	(15)	6
Performance	4	1	(3)	13	5	(8)	4
Customer relationship executives	3	-	(3)	5	3	(2)	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	7	7	-
Other	1	1	-	19	5	(14)	6
Operations delivery	(2)	-	2	(1)	-	1	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	10	-	(10)	-
HQ - Stations and customer services	2	-	(2)	5	-	(5)	1
HQ - Other	18	2	(16)	42	11	(31)	12
Other operating income	(3)	(1)	2	(13)	(8)	5	(3)
Total non-signaller expenditure	**32**	**9**	**(23)**	**123**	**51**	**(72)**	**30**
Total network operations expenditure	**73**	**29**	**(44)**	**314**	**164**	**(150)**	**70**
Support costs							
Core support costs							
Human resources	1	3	2	7	15	8	1
Information management	4	3	(1)	17	16	(1)	3
Government and corporate affairs	1	1	-	5	5	-	-
Group strategy	2	2	-	4	6	2	1
Finance	1	1	-	7	7	-	1
Business services	1	1	-	5	5	-	1
Accommodation	4	10	6	34	55	21	6
Utilities	6	3	(3)	21	15	(6)	6
Insurance	1	3	2	12	17	5	2
Legal and inquiry	-	-	-	-	2	2	-
Safety and sustainable development	1	-	(1)	7	2	(5)	1
Strategic sourcing	1	-	(1)	3	2	(1)	-
Business change	-	1	1	1	1	-	1
Other corporate functions	7	-	(7)	21	1	(20)	6
Core support costs	**30**	**28**	**(2)**	**144**	**149**	**5**	**29**
Other support costs							
Asset management services	3	2	(1)	12	6	(6)	2
Network Rail telecoms	3	2	(1)	13	12	(1)	2
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(8)	-	8	(2)
Commercial property	-	(1)	(1)	-	(3)	(3)	-
Group costs	(1)	-	1	(10)	(2)	8	(1)
Total other support costs	**3**	**3**	**-**	**7**	**13**	**6**	**1**
Total support costs	**33**	**31**	**(2)**	**151**	**162**	**11**	**30**
Traction electricity, industry costs and rates							
Traction electricity	40	52	12	194	230	36	35
Business rates	9	13	4	43	59	16	9
British transport police costs	6	5	(1)	30	24	(6)	7
RSSB costs	1	-	(1)	3	2	(1)	-
ORR licence fee and railway safety levy	2	1	(1)	8	6	(2)	2
Reporters fees	-	1	1	-	1	1	-
Other industry costs	-	-	-	2	1	(1)	-
Total traction electricity, industry costs and rates	**58**	**72**	**14**	**280**	**323**	**43**	**53**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**164**	**132**	**(32)**	**745**	**649**	**(96)**	**153**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates higher than the determination assumption this year mainly due to higher signaller costs have been partly offset by lower Traction electricity costs. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

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

In £m 2018-19 prices unless stated

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Extra investment has been directed as performance improvement schemes to improve train punctuality. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Whilst there have been savings across the control period, costs this year were higher than the regulator’s assumption with notable contributions from higher Utilities costs and higher local route services costs. Costs are slightly higher than the previous year as the Sussex route builds up its asset management capabilities ahead of the challenges of control period 6.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Accommodation – these property expenses were lower than the determination, contributing to the control period saving. These lower costs were mainly due to some savings based on lower than planned occupancy levels, allowing parts of the estate to be sublet to other parts of the Network Rail organisation. Costs are comparable to the previous year, with a slight savings arising from lower rents and service charges being negotiated for corporate offices.

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

In £m 2018-19 prices unless stated

(8) Utilities - costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are higher than the previous year reflecting unfavourable market movements.

(9) Insurance - costs are favourable to the determination across the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year and 2016/17 also benefitted from actuarial revaluation of liabilities which has reduced overall costs relating to older insurance policies.

(10) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

(11) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.

(12) Asset management services – costs across the control period are higher than the regulator anticipated. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(14) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination this control period mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Group costs also benefitted from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5).

(15) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator’s assumption in the current year and control period mainly due to lower traction electricity costs and Business rates partly offset by extra British Transport Police costs. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(16) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(17) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were lower than the regulator anticipated for the Sussex route this control period. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5).

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

In £m 2018-19 prices unless stated

(18) British Transport Police costs - expenses across the control period are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	31	30	31	32	34
MOMS	3	3	4	4	3
Control	4	5	6	6	6
Planning & Performance Staff Costs	1	4	7	8	5
Managed Stations Staff Costs	2	2	1	2	2
Operations Management Staff Costs	1	2	-	1	1
Other	4	10	20	17	22
Total operations & customer services costs	46	56	69	70	73
Total Network Operations	**46**	**56**	**69**	**70**	**73**
Support					
Human resources					
Functional support	1	1	1	1	1
Training (inc Westwood)	1	1	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	-	-	-	-
Total human resources	2	2	1	1	1
Information management					
Support	-	-	-	-	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	3	4	3	3	3
Other	-	-	-	-	-
Total information management	3	4	3	3	4
Finance	1	2	2	1	1
Business Change	-	-	-	1	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	-	1	-	1
Planning & development	-	1	-	1	2
Safety & compliance	-	-	-	-	-
Other corporate services	1	2	1	2	3
Commercial property	8	8	8	6	4
Infrastructure Projects	(1)	(1)	(2)	(2)	(2)
Route Services	2	2	4	4	5
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	3	1	5	6	6
Network Rail Telecoms	3	3	2	2	3
Digital Railway	-	2	1	1	1
Safety Technical & Engineering	2	2	2	2	3
Government & Corporate Affairs	2	1	1	-	1
Business Services	1	1	1	1	1
Route Asset Management	(1)	-	-	-	(1)
Legal and inquiry	-	-	-	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	4	5	(1)	2	1
Redundancy/reorganisation costs	1	-	-	-	1
Staff incentives/Bonus Reduction	(2)	-	-	-	-
Accommodation & Support Recharges	(1)	(2)	(2)	(1)	(2)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	(1)	-	-	-	-
Other	-	-	-	-	-
Total group/central costs	1	3	(3)	1	-
Total support	**28**	**33**	**27**	**30**	**33**
Total network operations and support costs	**74**	**89**	**96**	**100**	**106**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	31	22	(9)	161	122	(39)	31
Signalling	12	8	(4)	55	43	(12)	11
Civils	10	5	(5)	41	27	(14)	8
Buildings	6	4	(2)	23	28	5	6
Electrical power and fixed plant	8	4	(4)	37	23	(14)	9
Telecoms	-	2	2	-	9	9	-
Other network operations	12	4	(8)	52	29	(23)	11
Asset management services	3	2	(1)	12	12	-	2
National Delivery Service	-	3	3	(3)	15	18	-
Property	-	1	1	2	4	2	-
Group	(1)	(1)	-	(5)	(6)	(1)	(1)
Total maintenance expenditure	**81**	**54**	**(27)**	**375**	**306**	**(69)**	**77**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6 and extra reactive maintenance works.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are similar to the previous year.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspection and reactive maintenance expenditure. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are higher than the previous year reflecting higher reactive maintenance activity required this year.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing some of the underspends that occurred in earlier years of the control period. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are higher than the regulator assumed, compounding the additional spend in earlier years of the control period. Maintaining the appropriate level of asset performance and condition in this area has proved to be costlier than the regulator envisaged. This has been exacerbated by the reduction in renewals in this area (refer to Statement 9a) which has required more maintenance interventions to maintain asset condition. In addition, difficulties achieving the challenging efficiencies included in the determination have resulted in higher costs.

(7) Telecoms – minimal expenditure has been included under this category this control period. This is due to a transfer of responsibility to Other network operations in line with local management structure and asset accountability. This switch increases costs in the Other network operations category.

(8) Other network operations – costs for the current year and the overall control period are higher than the regulator's expectation. This is mainly caused by extra safety and performance improvement costs as well as the aforementioned transfer of responsibilities from Telecoms. For the control period as a whole, costs are also higher because, as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

(9) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

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

In £m 2018-19 prices unless stated

(10) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is broadly in line with the determination assumption across the control period.

Statement 9a: Summary analysis of renewals expenditure, Sussex

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	**PR13**	**Difference**	**Actual**	**PR13**	**Difference**	**Actual**
Track	65	49	(16)	231	192	(39)	48
Signalling	56	32	(24)	205	219	14	48
Civils	22	19	(3)	147	86	(61)	19
Buildings	55	20	(35)	126	106	(20)	4
Electrical power and fixed plant	11	9	(2)	71	94	23	9
Telecoms	7	5	(2)	27	37	10	7
Wheeled plant and machinery	5	5	-	23	39	16	3
Information Technology	6	5	(1)	36	29	(7)	4
Property	2	3	1	9	19	10	4
Other renewals	60	25	(35)	144	38	(106)	13
Total renewals expenditure	**289**	**172**	**(117)**	**1,019**	**859**	**(160)**	**159**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is noticeably higher than the determination expected. The extra spend this year is the catalyst for the higher investment in the control period as a whole. The higher investment is a combination of net acceleration this year and higher underlying costs (notably in Track, Signalling, Civils and Buildings). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs this control period Network Rail has deferred some activities until future control periods to remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are higher than the regulator assumed due to a combination of accelerations of activity and higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. Around one-third of the underperformance reported this control period was anticipated in the CP5 Business Plan. Higher opening costs have been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around one-tenth of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year and across the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity, most notably the aforementioned reduction in High Output volumes. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered, most notably in Switches & Crossings and also track side improvements. This year also saw increases arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, mitigating some of the underspend that had occurred earlier in the control period. Despite the higher levels of investment this year, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are much higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. Investment in Victoria signalling phase 2 was reduced as the scheme nears completion but this was more than offset by spend elsewhere in the route, including at Lewes and Newhaven.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was broadly in line with the regulatory expectation. However, this reflected higher underlying costs have been partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is in line with the previous year, mainly due to higher Earthworks costs including repairing an emergency landslip at Holmwood.

(5) Buildings – expenditure in the year was higher than the regulator anticipated which has more than offset the lower expenditure witnessed earlier in the control period. The current year included a catch up of previous years under delivery as well as some schemes that were accelerated from control period 6 workbanks, making use of resources available this year. There was investment in Franchised stations, including car park improvements and gates at platform ends to improve security and safety. The higher investment over CP5 was mainly due to higher costs for delivering the required programmes. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure this year was higher than 2017/18 as additional schemes were identified for delivery to utilise resources available in the current.

(6) Electrical power and fixed plant – costs across the control period are lower than the regulator's assumption. Most of this saving has arisen on Fixed plant as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was consistent with the previous year.

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

In £m 2018-19 prices unless stated

(7) Telecoms – expenditure across the control period was lower than the determination which was due to lower SISS (Station Information Surveillance Systems) partly offset by higher Non-route capital expenditure. As the name implies, Non-route capital expenditure is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference. Despite increased investment in the current year, investment in SISS programmes across the control period have been lower as upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is consistent with the previous year.

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment across the control period is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption across the control period. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2018-19 prices unless stated

(11) Other renewals includes the following notable items:

a. Faster isolations in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure across the control period was higher than the regulator assumed as works were accelerated from future control periods into the current control period. This was most evident in the current year when expenditure represented more than half of the control period total. Works this control period included improvements on the Brighton Main Line to approve capability.

b. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

c. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. There is minimal expenditure in the current year as the relevant programmes are now substantially complete. In the control period, 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).

d. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network in the South East. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. In addition, the current year includes investment to improve the resilience of the Thameslink line following commitments made by DfT and Network Rail to improve performance on this part of the network in light of the devasting impact that industrial action had on passengers earlier in the control period. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period. Costs this year are higher than the previous year due to the aforementioned investment in the Thameslink reliance programme.

Statement 9b: Detailed analysis of renewals expenditure, Sussex

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	20	15	(5)	98	72	(26)
High output renewal	1	15	14	16	35	19
Plain line refurbishment	7	-	(7)	19	2	(17)
S&C renewal	15	12	(3)	45	43	(2)
S&C refurbishment	5	2	(3)	18	9	(9)
Track non-volume	1	1	-	5	8	3
Off track	16	4	(12)	30	23	(7)
Total track	**65**	**49**	**(16)**	**231**	**192**	**(39)**
Signalling						
Full conventional resignalling	26	10	(16)	115	89	(26)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	10	10	-	36	36
Targeted component renewal	6	3	(3)	11	11	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	4	-	(4)	17	10	(7)
Level crossings	5	2	(3)	11	32	21
Minor works	13	5	(8)	48	30	(18)
Centrally managed costs	2	2	-	3	11	8
Other	-	-	-	-	-	-
Total signalling	**56**	**32**	**(24)**	**205**	**219**	**14**
Civils						
Underbridges	7	6	(1)	53	44	(9)
Overbridges	-	-	-	24	14	(10)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	16	1	(15)
Tunnels	1	1	-	4	9	5
Other assets	4	2	(2)	11	9	(2)
Structures other	-	6	6	2	(14)	(16)
Earthworks	10	4	(6)	37	23	(14)
Other	-	-	-	-	-	-
Total civils	**22**	**19**	**(3)**	**147**	**86**	**(61)**
Buildings						
Managed stations	11	8	(3)	21	34	13
Franchised stations	38	11	(27)	87	64	(23)
Light maint depots	2	-	(2)	9	4	(5)
Depot plant	-	-	-	-	-	-
Lineside buildings	1	1	-	4	2	(2)
MDU buildings	3	-	(3)	5	2	(3)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**55**	**20**	**(35)**	**126**	**106**	**(20)**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	2	3	1	36	38	2
Conductor rail	2	2	-	12	13	1
SCADA	2	-	(2)	3	5	2
Energy efficiency	-	-	-	2	5	3
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	4	5	1
Fixed plant	4	3	(1)	14	28	14
Total electrical power and plant	**11**	**9**	**(2)**	**71**	**94**	**23**
Telecoms						
Operational communications	1	-	(1)	4	6	2
Network	-	1	1	1	4	3
SISS	3	3	-	9	22	13
Projects and other	1	1	-	1	2	1
Non-route capital expenditure	2	-	(2)	12	3	(9)
Total telecoms	**7**	**5**	**(2)**	**27**	**37**	**10**
Wheeled plant and machinery						
High output	1	-	(1)	8	8	-
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	1	1	1	2	1
Intervention	1	1	-	4	9	5
Materials delivery	-	-	-	3	1	(2)
On track plant	1	1	-	3	6	3
Seasonal	-	-	-	-	3	3
Locomotives	1	1	-	1	1	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	1	1	-	2	8	6
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	**5**	**5**	**-**	**23**	**39**	**16**
Information Technology						
IM delivered renewals	6	4	(2)	33	26	(7)
Traffic management	-	1	1	3	3	-
Total information technology	**6**	**5**	**(1)**	**36**	**29**	**(7)**
Property						
MDUs/offices	2	2	-	6	14	8
Commercial estate	-	1	1	3	5	2
Corporate services	-	-	-	-	-	-
Total property	**2**	**3**	**1**	**9**	**19**	**10**
Other renewals						
Asset information strategy	1	-	(1)	12	13	1
Intelligent infrastructure	2	2	-	4	7	3
Faster isolations	25	2	(23)	43	13	(30)
LOWS	-	-	-	1	1	-
Small plant	1	1	-	1	4	3
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	20	20	-	-	-
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	46	-	(46)
Other	30	-	(30)	36	-	(36)
West Coast	-	-	-	-	-	-
Total other renewals	**60**	**25**	**(35)**	**144**	**38**	**(106)**
Total renewals	**289**	**172**	**(117)**	**1,019**	**859**	**(160)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Sussex – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Sussex

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	27	14	(13)	115	72	(43)	19
Access charge supplement Income	(14)	(14)	-	(58)	(58)	-	(9)
Net (income)/cost	**13**	**-**	**(13)**	**57**	**14**	**(43)**	**10**
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	18	-	(18)	138	-	(138)	22
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**18**	**-**	**(18)**	**138**	**-**	**(138)**	**22**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(8)	(12)	(2)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(4)	(15)	(3)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	3	1
Reporters fees	(1)	(1)	(1)
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(12)**	**(25)**	**(5)**

Statement 10: Other information, Sussex – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Sussex – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like costs, as shown in Statement 5a, which is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period are higher than the regulatory assumption. The same factors impacting the current year have also influenced financial performance in the earlier years of the control period. In addition, there has been the impact of adverse weather events. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track Switches & Crossings and Signalling).

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, including increased fencing and working with the Samaritans, such disruption affects performance significantly. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 10: Other information, Sussex – continued

In £m 2018-19 prices unless stated

(3) The Opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period mainly consists of penalties under the Volume Incentive measure and Business rates variances. For the Volume incentive, whilst most measures were met this control period growth in passenger farebox has not matched the regulator's assumption (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. The Business rates entry on the opex memorandum account relates to differences in the regulatory assumption of the costs that would be faced by Sussex and the actual property rates relating to the estate on that part of the network.

Statement 11:

There is no Statement 11 required for Sussex

Statement 12: Volume incentives, Sussex

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	0	0	21	21	1.3%	1.61	pence per passenger train mile
Passenger farebox (millions)	(12)	(2)	839	894	4.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	0	0	1.3%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	129	113	1.7%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(12)**	**(2)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, whilst most targets have been broadly achieved, Network Rail has underperformed the regulator's targets for Passenger farebox income. The industry has not grown revenue from passengers as fast as the regulator assumed. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	31	18	41	118	347	41	21	54	129	419
	High Output Renewal	km	-	-	-	-	-	-	-	-	-	-
	Plain line Refurbishment	km	27	6	17	66	258	15	5	17	71	239
	S&C Renewal/Refurbishment	point ends	96	17	27	223	121	60	9	22	251	88
	Track Drainage	lm	1,204	2	5	10,901	0	3,553	2	5	10,627	0
	Fencing	km	11	1	3	41	73	8	-	4	44	91
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	166	2	7	440	16	108	2	11	443	25
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**46**	**100**	**-**	**-**	**-**	**39**	**113**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	109	20	115	211	545	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	15	-	-	15	-	-	-	-	-	-
	Targeted Component Renewal	SEU	33	6	8	33	242	1	1	1	1	1,000
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	3	5	7	6	1,167	-	-	-	-	-
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**31**	**130**	**-**	**-**	**-**	**1**	**1**	**-**	**-**
Civils	Underbridges	m^2	2,046	6	21	2,318	9	6,575	4	9	6,575	1
	Overbridges (incl BG3)	m^2	325	-	1	325	3	4,953	1	5	4,953	1
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	-	-	-	-	-	-	-	-	-	-
	Culverts	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges	m^2	591	2	2	678	3	45	-	2	45	44
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m^2	-	-	-	-	-	-	-	-	-	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	34	7	14	198	71	62	1	4	199	20
	EW Drainage	m	220	1	2	15,117	0	5,426	1	2	15,532	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**16**	**40**	**-**	**-**	**-**	**7**	**22**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	3,503	-	1	12,169	0	2,826	1	1	10,413	0
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m^2	145	-	-	145	-	-	-	-	-	-
	Platforms (FS)	m^2	-	-	-	-	-	1,515	1	1	2,431	0
	Canopies (FS)	m^2	-	-	-	-	-	85	-	1	478	2
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	433	2	6	2,205	3	80	-	4	1,945	2
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	1	-	-	1	-
	Light Maintenance Depots	m^2	-	-	-	-	-	-	-	-	-	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	118	-	-	1,465	-	918	-	1	3,465	0
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**2**	**7**	**-**	**-**	**-**	**2**	**8**	**-**	**-**

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	6	2	6	45	133	22	1	6	56	107
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	5	1	3	5	600	3	1	1	3	333
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	4	1	2	9	222
	Transformer Rectifiers DC		-	-	-	-	-	1	-	1	1	1,000
	LV switchgear renewal DC	No.	-	-	-	-	-	1	-	-	1	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	1	-	-	1	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**3**	**9**	**-**	**-**	**-**	**3**	**10**	**-**	**-**
Telecoms	Customer Information Systems	No.	403	1	4	533	8	130	1	4	579	7
	Public Address	No.	1,635	-	-	2,336	-	701	-	-	2,467	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	127	1	4	152	26	25	2	4	157	25
	PABX Concentrator	No. lines	770	-	3	770	4	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	12	-	-	12	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**2**	**11**	**-**	**-**	**-**	**3**	**8**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - Conventional plain line renewals decreased in unit costs whilst plain line refurbishment increased in unit costs. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small. Switches and crossings increased in unit costs due to the work bank being comprised or more expensive medium and heavy refurbishments. The unit cos for fencing decreased due to the fact that a higher proportion of smaller fences were renewed in the current year compared to 2017-18.

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

In £m 2018-19 prices unless stated

(3) Signalling – The unit cost for targeted conventional re-signalling dramatically decreased in the year. However, there was only one project in the prior year which means that the sample size was too small to do any meaningful analysis.

(4) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been an increase in the unit cost of underbridges in the year due to the work bank in the current year being made up mainly of replacement and repair work compared to prevention and structuring work in the prior year. There has been a decrease in the unit cost for footbridges but there was only one scheme in the prior year which makes the sample size too low for any meaningful analysis.

(5) Electrical Power and Fixed Plant – The unit cost rose for HV switchgear renewal DC due to the unique nature of the work. Only one project delivered volumes (North Pole sub replacement) in this year and one project (Pangdean Substation Relocation) delivered volumes in the prior year. Work for this key volume line involves replacing operational working gear either inside an original substation or in a new building and thus the costs will vary on the nature of the work taking place making comparison difficult. The unit cost increased in the conductor rail category. This is because in the current year there was more renewal and less refurbishment than there was in the prior year

Statement 1: Summary regulatory financial performance, Wales

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Income							
Grant Income	272	272	-	1,451	1,448	3	300
Fixed Income	52	53	(1)	145	145	-	25
Variable Income	24	26	(2)	141	140	1	23
Other Single Till Income	27	35	(8)	111	127	(16)	22
Opex memorandum account	(4)	-	(4)	(7)	-	(7)	(2)
Total Income	**371**	**386**	**(15)**	**1,841**	**1,860**	**(19)**	**368**
Operating expenditure							
Network operations	39	23	(16)	173	133	(40)	36
Support costs	28	18	(10)	110	110	-	19
Traction electricity, industry costs and rates	19	16	(3)	78	60	(18)	17
Network maintenance	74	66	(8)	369	340	(29)	71
Schedule 4	7	9	2	38	74	36	7
Schedule 8	-	-	-	2	1	(1)	3
Total operating expenditure	**167**	**132**	**(35)**	**770**	**718**	**(52)**	**153**
Capital expenditure							
Renewals	161	105	(56)	904	753	(151)	192
PR13 enhancement expenditure	223	181	(42)	725	755	30	181
Non PR13 enhancement expenditure	7	-	(7)	15	-	(15)	2
Total capital expenditure	**391**	**286**	**(105)**	**1,644**	**1,508**	**(136)**	**375**
Other expenditure							
Financing costs	122	121	(1)	493	524	31	122
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	**122**	**121**	**(1)**	**493**	**524**	**31**	**122**
Total expenditure	**680**	**539**	**(141)**	**2,907**	**2,750**	**(157)**	**650**

Statement 1: Summary regulatory financial performance, Wales – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR’s determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income variances to the determination arise from variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is lower than the previous year and in line with the determination expectation, with a higher proportion of Ntework Rail’s revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income variances to the determination arise from variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Other single till income in the year is lower than the determination mainly due to changes in the way the Welsh Valley Line programme is funded, which is offset by a corresponding saving in Financing costs. This lower income has been partly offset by additional property income mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. Income across the control period is lower than expected, mainly for the same reasons. These variances are set out in more detail in Statement 6a.

(5) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator’s assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected. Losses recognised this year are higher than previous years as the industry growth has not matched the regulator’s assumptions in the PR13 determination. The variances are set out in more detail in Statement 10.

(6) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(7) Operating expenditure - Support costs are higher than the determination this year but are in line with the regulatory target across the control period. Support costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher British Transport Police costs. The additional costs in the control period is also due to this. Costs are higher than the previous year. Traction electricity, industry costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Wales – continued

In £m 2018-19 prices unless stated

(9) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are slightly higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(10) Operating expenditure - Schedule 4 costs are lower than the determination mainly due to lower average costs of possessions compared to the regulator’s assumption. The lower like-for-like costs has been achieved through efficient planning, most notably utilising possessions required for Great Western Electrification Programme works. This has enabled reduced disruption as well as allowing possession costs to be shared. Combining a number of work activities in single possessions and making fewer late changes to possessions plans has helped to create savings. Costs are in line with the previous year. Schedule 4 costs are discussed in more detail in Statement 10.

(11) Operating expenditure – Schedule 8 was broadly neutral for the year, but marginally higher for the control period. There have been a number of positive initiatives which have contributed, including increased focus on asset management and additional Rail head Train Treatment shifts to improve Autumn performance. This resulted in additional Maintenance costs but resulted in fewer passenger delays. Schedule 8 costs are set out in more detail in Statement 10.

(12) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Civils) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Costs are lower than the previous year mainly due to lower signalling and track investment. Renewals costs are discussed in more detail in Statement 9a.

(13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline mainly due to extra investment in the Great Western Electrification programme. Expenditure is higher than the previous year, reflecting the timing of progress on the Great Western Electrification programme which dominants the enhancement portfolio in Wales this control period. 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 so the higher investment in the current year and the control period is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network and support the wider Western electrification programme. These items are set out in more detail in Statement 3.

(15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, including the DfT and accretion on index-linked debt instruments. Costs is the control period are lower than the determination expected mainly due to lower levels of average debt across the control period. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wales

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**3,083**	**3,103**	**(20)**
Indexation to 2017-18 prices	379	382	(3)
Opening RAB for the year (2017-18 prices)	**3,462**	**3,485**	**(23)**
Indexation for the year	110	111	(1)
Opening RAB (2018-19 prices)	**3,572**	**3,596**	**(24)**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	144	105	39
PR13 enhancements	214	112	102
Non-PR13 enhancements	5	-	5
Total enhancements	219	112	107
Amortisation	(152)	(152)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**3,783**	**3,661**	**122**

RAB Regulatory financial position - cumulative, Wales

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**2,918**	**3,037**	**3,146**	**3,379**	**3,572**	**2,918**
Adjustments for the actual capital expenditure outturn in CP4	84	-	-	-	-	84
Renewals	132	160	193	170	144	799
PR13 enhancements	43	87	185	176	214	705
Non-PR13 enhancements	1	2	-	-	5	8
Total enhancements	44	89	185	176	219	713
Amortisation	(140)	(140)	(145)	(153)	(152)	(730)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	-	(1)
Closing RAB	**3,037**	**3,146**	**3,379**	**3,572**	**3,783**	**3,783**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is lower than the regulator anticipated in its' determination. This is mostly due lower levels of enhancement expenditure in the earlier years of the control period which has more than offset the impact of additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. The Great Western Electrification Programme is main reason for this movement.

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. The amounts in this category this year include costs associated with the wider Great Western Electrification programme.

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

In £m 2018-19 prices unless stated

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets this control (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wales

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**149**	**182**	**193**	**124**	**105**	**753**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	6	-	-	-	-	6
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**155**	**182**	**193**	**124**	**105**	**759**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(72)	(100)	(57)	(11)	(18)	(258)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(8)	(10)	(12)	(37)
Adjustments for efficient overspend	61	104	78	79	70	392
Capitalised financing on efficient overspend	1	5	8	12	17	43
25% retention of efficient overspend	(15)	(27)	(20)	(21)	(17)	(100)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)	(4)	(10)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	1	-	2	9
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	1	1
Retention of efficient overspend through spend to save framework	(1)	-	-	-	-	(1)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	1	-	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**132**	**160**	**193**	**170**	**144**	**799**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	1	2	1	(1)	3
Adjustment for 25% retention of efficient overspend	17	28	20	21	18	104
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	-	-	(1)	(1)	-	(2)
Total actual renewals expenditure (see statement 9)	**149**	**189**	**214**	**191**	**161**	**904**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**109**	**132**	**153**	**217**	**112**	**723**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	-	-	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	(98)	3	56	69	30
Capitalised financing on Baseline adjustments	-	(2)	(4)	(3)	(1)	(10)
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**109**	**32**	**152**	**270**	**180**	**743**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(65)	56	33	(93)	19	(50)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	-	(1)	(3)	(6)
Adjustments for efficient overspend / (underspend)	-	-	-	-	23	23
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	1	1
25% retention of efficient overspend / (underspend)	-	-	-	-	(6)	(6)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
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 framwork 20% retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**43**	**87**	**185**	**176**	**214**	**705**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	-	2	7	12
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	(2)	(2)	(5)
Capitalised financing on non-PR13 enhancements expenditure	-	1	-	-	-	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**1**	**2**	**-**	**-**	**5**	**8**
Total enhancements (added to the RAB - see statement 2a)	**44**	**89**	**185**	**176**	**219**	**713**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	1	2	4	4	3	14
Adjustment for 25% retention of efficient overspend	-	-	-	2	8	10
Other Adjustments	3	-	-	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure	-	-	-	-	-	-
Third party funded schemes	60	57	14	21	7	159
Other adjustments	-	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	**108**	**148**	**203**	**203**	**237**	**899**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling and Civils projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(9) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

(10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(11) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, which is mainly due to Great Western Electrification. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

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

In £m 2018-19 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) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB

Statement 3: Analysis of enhancement capital expenditure, Wales

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	-	(3)	4	5	1
Stations - Access for All (AfA)	-	(5)	(5)	8	7	(1)
Development	1	4	3	7	8	1
Level crossing safety	1	(1)	(2)	3	3	-
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	(2)	(2)	4	4	-
Total funds	**5**	**(4)**	**(9)**	**26**	**27**	**1**
Committed projects						
Bridgend to Swansea electrification	-	7	7	19	20	1
GW electrification	218	178	(40)	682	690	8
IEP Programme	-	-	-	-	-	-
Total committed projects	**218**	**185**	**(33)**	**701**	**710**	**9**
Third party funded						
Welsh Valley lines electrification	-	(1)	(1)	2	3	1
Total Third Party funded	**-**	**(1)**	**(1)**	**2**	**3**	**1**
CP4 Project Rollovers						
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Station Security	-	1	1	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	**-**	**1**	**1**	**13**	**14**	**1**
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	-	-	1	1	-
Income generating property schemes	-	-	-	2	-	(2)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(20)	-	20
Total other projects	**-**	**-**	**-**	**(17)**	**1**	**18**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**223**	**181**	**(42)**	**725**	**755**	**30**
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	6	-	(6)	8	-	(8)
Total Government sponsored schemes	**6**	**-**	**(6)**	**8**	**-**	**(8)**
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)**	**5**	**-**	**(5)**
Total non PR13 enhancement expenditure	**7**	**-**	**(7)**	**15**	**-**	**(15)**
Total Network Rail funded enhancements (see Statement 1)	**230**	**181**	**(49)**	**740**	**755**	**15**
Third Party PAYG	**7**	**-**	**(7)**	**159**	**-**	**(159)**
Total enhancements (see statement 2b)	**237**	**181**	**(56)**	**899**	**755**	**(144)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £230m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£237m) less the PAYGO schemes funded by third parties (£7m).

(5) Investment expenditure this year was higher than 2017/18, mainly due to progress made on the Great Western Electrification Programme.

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

In £m 2018-19 prices unless stated

(6) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline which has brought the control period total position into step with the Hendy assumption. Noteworthy variances between expenditure in the year and the baseline are set out below:

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is higher than the baseline in the current year the control period position is consistent with the Hendy target. The largest single project this year was at Bridgend station.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. Minimal expenditure was undertaken in the current year as schemes had been delivered in earlier years of the control period.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure across the control period was broadly consistent with the Hendy baseline.

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 for the control period was broadly in line with the Hendy assumption. There was limited activity this year as projects were delivered in earlier years of the control period instead.

(7) PR13 funded schemes – Committed Projects - overall expenditure for the year is higher than the baseline reversing some of the underspends in earlier years. Investment across the control period remains lower than planned. The notable variances between expenditure and the baseline are set out below:

a. GW electrification - this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is higher than the baseline this year, which reverses most of the underspend in earlier years of the control period. Expenditure across the control period is broadly in line with the Hendy baseline. This is due to elements of the programme being deferred until future control periods which has been partly offset by higher programme costs which has resulted in the recognition of financial underperformance (refer to Statement 5). Slower progress on the programme has been caused by a variety of factors, including: working around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope.

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

In £m 2018-19 prices unless stated

b. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period is largely consistent with the baseline.

(8) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the control period is in line with baseline agreed following the Hendy review.

(9) Other CP4 Rollover – this mostly consists of Barry – Cardiff Queen Street - the output of the project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. This is a CP4 capacity scheme rolled over into CP5. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.

(10) Other projects – the main item included in this heading is: Adjustment for DfT funding – Other. During 2017/18, DfT provided Network Rail with a £300m contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £300m (refer to Statement 2a).

(11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

b. Discretionary investment – expenditure this control period mainly relates to investment in various projects for which there was no funding, either in the Hendy baseline or from third parties which the route have decided to implement to generate benefits for the network in Wales as a whole. As these projects have no funding baseline, they have resulted in financial underperformance being recognised this year (refer to Statement 5c).

c. PAYGO – notable projects delivered this year includes Talerddig crossing closures to improve public safety and works at Bow Street station.

Statement 4: Net debt and financial ratios, Wales

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

(£m, nominal prices)	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Opening net debt	**2,570**	**2,512**	**(58)**	**1,774**	**1,731**	**(43)**
Income						
Grant income	(272)	(272)	-	(1,369)	(1,364)	5
Fixed charges	(52)	(53)	(1)	(137)	(139)	(2)
Variable charges	(24)	(26)	(2)	(133)	(132)	1
Other single till income	(27)	(35)	(8)	(105)	(122)	(17)
Total income	**(375)**	**(386)**	**(11)**	**(1,744)**	**(1,757)**	**(13)**
Expenditure						
Network operations	39	23	(16)	165	128	(37)
Support costs	28	18	(10)	104	101	(3)
Traction electricity, industry costs and rates	19	16	(3)	72	59	(13)
Network maintenance	74	66	(8)	350	320	(30)
Schedule 4	7	9	2	36	69	33
Schedule 8	-	-	-	1	-	(1)
Renewals	161	105	(56)	854	706	(148)
PR13 enhancement	223	112	(111)	697	684	(13)
Non-PR13 enhancement	7	-	(7)	14	-	(14)
Total expenditure	**558**	**349**	**(209)**	**2,293**	**2,067**	**(226)**
Financing						
Interest expenditure on nominal debt - FIM covered	13	45	32	94	178	84
Interest expenditure on index linked debt - FIM covered	14	17	3	63	75	12
Expenditure on the FIM	14	28	14	78	119	41
Interest expenditure on government borrowing	55	-	(55)	134	-	(134)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(7)	(6)
Total interest costs	**96**	**88**	**(8)**	**368**	**365**	**(3)**
Accretion on index linked debt - FIM covered	26	33	7	106	159	53
Total financing costs	**122**	**121**	**(1)**	**474**	**524**	**50**
Corporation tax	-	-	-	-	-	-
Other	(20)	-	20	58	31	(27)
Movement in net debt	**285**	**84**	**(201)**	**1,081**	**865**	**(216)**
Closing net debt	**2,855**	**2,596**	**(259)**	**2,855**	**2,596**	**(259)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	1.24	1.07	0.95	0.73	0.59	1.15
FFO/interest	2.95	2.94	2.65	2.49	2.19	2.88
Net debt/RAB (gearing)	67.3%	68.1%	70.7%	74.2%	75.4%	70.9%
FFO/debt	11.0%	9.7%	8.9%	8.1%	7.3%	9.8%
RCF/debt	7.6%	6.7%	6.0%	4.9%	4.0%	6.4%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.

(3) Net debt attributable to Wales at 31 March 2019 is £0.3bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network and higher net operating costs have driven increases in debt.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are 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 consistent with the regulatory assumption this year. Higher levels of average net debt during the year compared to the regulatory expectation has been partly offset by lower effective interest rates. The favourable position in the control period is mainly due to lower than expected inflation rates in earlier years which has reduced Network Rail's accretion interest expenses and lower than expected average net debt earlier in the control period.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed this control period largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed across control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above). In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination, there is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year despite the increase in this type of debt which reflects the lower inflation rates experienced in the current year.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected Network Rail to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher operating costs (Network operations, Maintenance and Support) along with lower turnover as described elsewhere in these accounts. The decline in this ratio compared to the previous year is impacted by higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio.

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

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

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operating costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail's business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year and that is the case. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Support costs, as well as lower income. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation but also due to higher net operational costs throughout the control period and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Support costs, which all get harder with each passing year.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wales

In £m 2018-19 prices unless stated

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
					2018-19				
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	272	272	-		-	-	-	-	-
Fixed Income	52	53	(1)		(1)	-	-	-	-
Variable Income	21	22	(1)		-	-	-	(1)	(1)
Other Single Till Income	27	35	(8)		(7)	-	-	(1)	(1)
Opex memorandum account	(4)	-	(4)		1	-	-	(5)	(5)
Total Income	**368**	**382**	**(14)**		**(7)**	**-**	**-**	**(7)**	**(7)**
Expenditure									
Network operations	39	23	(16)		-	-	-	(16)	(16)
Support costs	28	18	(10)		-	-	-	(10)	(10)
Industry costs and rates	16	12	(4)		(1)	-	-	(3)	(3)
Traction electricity	-	-	-		-	-	-	-	-
Reporter's fees	-	-	-		-	-	-	-	-
Network maintenance	74	66	(8)		-	3	-	(11)	(11)
Schedule 4 costs	7	9	2		-	(2)	-	4	4
Schedule 8 costs	-	-	-		-	-	-	-	-
Renewals	161	105	(56)		-	13	-	(69)	(17)
PR13 Enhancements	223	181	(42)		-	(18)	-	(24)	(4)
Non PR13 Enhancements	7	-	(7)		-	(6)	-	(1)	(1)
Financing Costs	122	121	(1)		(1)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**677**	**535**	**(142)**		**(2)**	**(10)**	**-**	**(130)**	**(58)**
Total:			**(156)**		**(9)**	**(10)**	**-**	**(137)**	**(65)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(65)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	-
Under-delivery of train performance requirements (CaSL)	-
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**-**
Total financial out / (under) performance to be recognised	**(65)**

Statement 5a: Total financial performance, Wales - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income									
Grant Income	1,451	1,448	3		3	-	-	-	-
Fixed Income	145	145	-		-	-	-	-	-
Variable Income	137	135	2		-	-	-	2	2
Other Single Till Income	111	127	(16)		(21)	-	-	5	5
Opex memorandum account	(7)	-	(7)		6	-	-	(13)	(13)
Total Income	**1,837**	**1,855**	**(18)**		**(12)**	**-**	**-**	**(6)**	**(6)**
Expenditure									
Network operations	173	133	(40)		-	-	-	(40)	(40)
Support costs	110	110	-		2	-	-	(2)	(2)
Industry costs and rates	74	54	(20)		(6)	-	-	(14)	(14)
Traction electricity	-	-	-		-	-	-	-	-
Reporter's fees	-	1	1		1	-	-	-	-
Network maintenance	369	340	(29)		-	(4)	-	(25)	(25)
Schedule 4 costs	38	74	36		-	13	-	23	23
Schedule 8 costs	2	1	(1)		-	-	-	(1)	(1)
Renewals	904	753	(151)		-	250	-	(401)	(100)
PR13 Enhancements	725	755	30		-	54	-	(24)	(4)
Non PR13 Enhancements	15	-	(15)		-	(12)	-	(3)	(3)
Financing Costs	493	524	31		31	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	-	-	-	-
Total Expenditure	**2,903**	**2,745**	**(158)**		**28**	**301**	**-**	**(487)**	**(166)**
Total:			**(176)**		**16**	**301**	**-**	**(493)**	**(172)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(172)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(8)
Under-delivery of train performance requirements (CaSL)	(2)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(2)
Missed Enhancement milestones	(1)
Total adjustment for under-delivery outputs	**(13)**
Total financial out / (under) performance to be recognised	**(185)**

Statement 5a: Total financial performance, Wales - continued

In £m 2018-19 prices unless stated

	2018-19			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	(3)	(4)	1	(4)	(5)	1
Total variance not included in total financial performance:	**(3)**	**(4)**	**1**	**(4)**	**(5)**	**1**

Breakdown of variance not included in total financial performance - OSTI:	**Actual**	**Adjusted PR13**	**Variance not included in total financial performance**	**Actual**	**Adjusted PR13**	**Variance not included in total financial performance**
Adjustment for Property Divestment	5	-	5	5	-	5
Adjustment for Welsh Valleys finance charge	-	13	(13)	-	26	(26)
Total variance not included in total financial performance:	**5**	**13**	**(8)**	**5**	**26**	**(21)**
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	-	-	-	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total financial performance:	**-**	**-**	**-**	**2**	**-**	**2**

Breakdown of variance not included in total financial performance - Traction electricity:	**Actual**	**Adjusted PR13**	**Variance not included in total**	**Actual**	**Adjusted PR13**	**Variance not included in total financial**
Adjustments for external traction electricity	3	4	(1)	4	5	(1)
Total variance not included in total financial performance:	**3**	**4**	**(1)**	**4**	**5**	**(1)**

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

(3) Variable income – across the control period, Network Rail has run more trains than expected in response to customer demand and so has achieved some extra income compared to the regulatory target. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this control period, financial underperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. The PR13 assumed that Network Rail would receive income for Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for this programme. However, this assumption did not fully materialise, and the project did not progress. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. In addition, the extra income generated from disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The outperformance recognised in Other single till income this control period is mainly due to extra Property income arising from rental income and a higher number of business as usual disposals. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Slow freight growth owing structural changes in the industry and slower than expected passenger growth have resulted in financial underperformance being recognised this year and in the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

(6) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – this year, Support costs are higher than the determination, reversing the outperformance witnessed in the earlier years of the control period when efficiencies were delivered. Support costs are discussed in more detail in Statement 7. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

(8) Industry costs and rates – the negative FPM in the year (and for the control period) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variance for the control period arises from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

(10) Schedule 4 costs – this year costs are less than the regulator expected which is mainly due to lower like-for-like costs. The lower like-for-like costs has resulted in financial outperformance being reported this year and across the control period, as shown in Statement 5a. This has been achieved through efficient planning, most notably utilising possessions required for Great Western Electrification Programme works. This has enabled reduced disruption as well as allowing possession costs to be shared. Combining a number of work activities in single possessions and making fewer late changes to possessions plans has helped to create savings. Costs are in line with the previous year. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

(11) Schedule 8 costs – net costs are broadly in line with the regulatory assumption this year, but marginally higher for the control period. There have been a number of positive initiatives which have contributed, including increased focus on asset management and additional Rail head Train Treatment shifts to improve Autumn performance. This resulted in additional Maintenance costs but resulted in fewer passenger. Penalties payable by train operators for service failures due to train issues helped offset costs Network Rail incurred under the performance regime mechanism.

(12)Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(13)PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme individually and is dominated by Great Western Electrification both in the current year and across the control period. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 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. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The financial underperformance recognised this control period is mainly due to a number of small discretionary projects which aim to improve the network in Wales but for which no funding was provided through the Hendy review or subsequent change control.

(15) Financing costs – financing costs this control period are lower than the regulator expected mainly due to lower average net debt levels compared to the assumption in the regulators' PR13 and lower interest rates (notably inflation which impacts accreting debt). This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(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 achieved in 2018/19 but missed in earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction in its financial performance in the control period for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wales were achieved in 2018/19 but missed in earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction in its financial performance in the control period for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

Statement 5a: Total financial performance, Wales – continued

In £m 2018-19 prices unless stated

(5) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst a milestone was missed in 2014/15 (Phase 3 of the Barry to Cardiff Queen Street line development) there have been no missed outputs since which have impacted customer outputs.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(26)	(2)	(24)	(6)	-	(7)	1	-
Signalling	(18)	(2)	(16)	(4)	-	(4)	-	-
Civils	(5)	15	(20)	(5)	-	(5)	-	-
Buildings	(8)	(8)	-	-	-	-	-	-
Electrical power and fixed plant	(5)	(1)	(4)	(1)	-	-	(1)	-
Telecoms	(1)	(1)	-	-	-	-	-	-
Wheeled plant and machinery	(2)	(2)	-	-	-	-	-	-
IT	(2)	(2)	-	-	-	-	-	-
Property	(3)	1	(4)	(1)	-	(1)	-	-
Other renewals	14	15	(1)	-	-	-	-	-
Total	**(56)**	**13**	**(69)**	**(17)**	**-**	**(17)**	**-**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(93)	71	(164)	(41)	-	(40)	(1)	-
Signalling	(69)	83	(152)	(38)	-	(37)	(1)	-
Civils	(4)	72	(76)	(19)	-	(13)	(6)	-
Buildings	8	4	4	1	-	1	-	-
Electrical power and fixed plant	8	12	(4)	(1)	-	-	(1)	-
Telecoms	(1)	(1)	-	-	-	-	-	-
Wheeled plant and machinery	12	12	-	-	-	-	-	-
IT	(9)	(9)	-	-	-	-	-	-
Property	(3)	1	(4)	(1)	-	(1)	-	-
Other renewals	-	5	(5)	(1)	-	-	(1)	-
Total	**(151)**	**250**	**(401)**	**(100)**	**-**	**(90)**	**(10)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year, about one-third of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan this control period which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability. The largest single contributor to signalling financial performance this control period has been Cardiff area re-signalling. Delays in the commissioning of the project have increased costs. The lack of available access meant that the project has been delayed by more than two years with the prolongation resulting in extra costs.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities, such as landslips damaging the network. These types of costs tend to have higher average costs due to the speed required to rectify damages to the network.

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period includes notable contributions from FTN.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	(40)	(14)	-	(26)	(6)
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	(5)	(4)	-	(1)	(1)
Other Enhancements	(4)	(6)	-	2	2
Total	**(49)**	**(24)**	**-**	**(25)**	**(5)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	8	34	-	(26)	(6)
T12 Enhancements	-	-	-	-	-
Stations - Access for All (AfA)	(1)	-	-	(1)	(1)
Other Enhancements	8	8	-	-	-
Total	**15**	**42**	**-**	**(27)**	**(7)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Great Western electrification – total programme costs are split between Western and Wales. These total programme costs have increased this year which has resulted in the recognition of financial underperformance. This includes extra contractor and access costs to meet the Transport for Wales direction to complete the Overhead Line Electrification improvements to the Cardiff area by November 2019. Additional access and blockade costs have to be paid to operators to obtain access required to complete Overhead Line Electrification for the Newbury to Reading section. Finally, there are extra access compensation costs required to undertake a three week blockade at Bristol Parkway to deliver the Overhead Line Electrification works to this station to meet timetable commitments (December 2018).

Statement 5d: Total financial performance - REBS performance, Wales

In £m 2018-19 prices unless stated

			Cumulative to 2018-19				
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	45	48	(3)	-	-	-	(3)
Capacity charge	48	45	3	-	-	-	3
Electricity asset utilisation charge	-	-	-	-	-	-	-
Property income	10	5	5	-	-	-	5
Expenditure							
Network operations	173	128	(45)	-	-	-	(45)
Support costs	110	116	6	-	1	-	5
RSSB and BT Police	24	10	(14)	-	-	-	(14)
Network maintenance	369	332	(37)	(16)	-	-	(21)
Schedule 4 costs	38	68	30	7	-	-	23
Schedule 8 costs	2	-	(2)	-	-	-	(2)
Renewals	904	767	(137)	264	-	(301)	(100)
Total REBS performance			**(194)**	**255**	**1**	**(301)**	**(149)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(8)
Under-delivery of train performance requirements (CaSL)	(2)
Missed milestones for asset management - data quality	-
Missed ORBIS milestones	(2)
Total adjustment for under delivery of outputs and reduced sustainability	**(12)**
Cumulative performance to end of 2018-19	**(161)**
Less cumulative outperformance recognised up to the end of 2017-18	(107)
Net REBS performance for 2018-19	**(54)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**272**	**272**	**-**	**1,451**	**1,448**	**3**	**300**
Franchised track access income							
Fixed charges	**52**	**53**	**(1)**	**145**	**145**	**-**	**25**
Variable charges							
Variable usage charge	5	6	(1)	27	27	-	5
Traction electricity charges	3	4	(1)	4	5	(1)	1
Electrification asset usage charge	-	-	-	-	1	(1)	-
Capacity charge	9	9	-	47	44	3	9
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	7	7	-	63	63	-	8
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**24**	**26**	**(2)**	**141**	**140**	**1**	**23**
Total franchised track access income	**76**	**79**	**(3)**	**286**	**285**	**1**	**48**
Total franchised track access and grant income	**348**	**351**	**(3)**	**1,737**	**1,733**	**4**	**348**
Other single till income							
Property income	9	1	8	19	1	18	5
Freight income	4	6	(2)	22	25	(3)	4
Open access income	-	-	-	-	-	-	-
Stations income	10	11	(1)	55	56	(1)	10
Facility and financing charges	1	14	(13)	1	31	(30)	-
Depots Income	3	3	-	14	13	1	3
Other income	-	-	-	-	1	(1)	-
Total other single till income	**27**	**35**	**(8)**	**111**	**127**	**(16)**	**22**
Total income	**375**	**386**	**(11)**	**1,848**	**1,860**	**(12)**	**370**

Statement 6a: Analysis of income, Wales – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is lower than the regulator expected this year mainly as a result of how certain enhancements would be funded and the income that Wales would receive from Welsh Valley financing arrangements (offset by interest cost savings made by Network Rail). This has been partly offset by additional property sales, primarily the divestment of a significant part of Network Rail’s commercial property estate to fund its ambitious enhancements programme this control period. Income for the control period is lower than the regulatory target due to the same factors. Income is higher than the previous year, which is mostly due to the divestment of a large section of Network Rail’s commercial estate.

Statement 6a: Analysis of income, Wales – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is in line with the determination. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was broadly in line with the determination in the current year and across the control period. Slight variances have arisen from marginal differences in inflation rates used to calculate actual contractual income and the assumption in the determination, as described in the above comment on Grant income. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Capacity charge – income across the control period was ahead of the regulatory expectation due to extra services being provided for passengers.

(6) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral.

Statement 6a: Analysis of income, Wales – continued

In £m 2018-19 prices unless stated

(7) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Wales route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of the asset divestment income, Property income has been higher than the determination target across the control period. The determination assumed that minimal property income would be earned in Wales this control period, but opportunities have been identified, including some additional property sales. Costs are higher than the previous year due to the aforementioned asset divestment benefits.

(8) Freight Income – this is below the regulator's determination across the control period and is mainly due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Income is consistent with the previous year.

(9) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination. At the time of the determination the ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainly over the financing (see Statement 3) have meant that this work has not taken place in the manner expected meaning no income has been generated in the current year or across the control period. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	3	2	1	10	7	3	2
Property sales	6	-	6	9	1	8	3
Adjustment for commercial opex	-	(1)	1	-	(7)	7	-
Total property income	**9**	**1**	**8**	**19**	**1**	**18**	**5**
Freight income							
Freight variable usage charge	4	4	-	18	21	(3)	4
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	1	1	-	-
Freight only line charge	-	-	-	1	1	-	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	2	-	2	-
Freight coal spillage charge	-	1	(1)	-	1	(1)	-
Total freight income	**4**	**6**	**(2)**	**22**	**25**	**(3)**	**4**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stations income							
Managed stations income							
Long term charge	-	-	-	-	-	-	-
Qualifying expenditure	-	-	-	-	-	-	-
Total managed stations income	-	-	-	-	-	-	-
Franchised stations income							
Long term charge	9	10	(1)	48	49	(1)	9
Stations lease income	1	1	-	7	7	-	1
Total franchised stations income	10	11	(1)	55	56	(1)	10
Total stations income	**10**	**11**	**(1)**	**55**	**56**	**(1)**	**10**
Facility and financing charges							
Facility charges	1	1	-	1	5	(4)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	13	(13)	-	26	(26)	-
Total facility and financing charges	**1**	**14**	**(13)**	**1**	**31**	**(30)**	**-**
Depots income	**3**	**3**	**-**	**14**	**13**	**1**	**3**
Other	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**
Total other single till income	**27**	**35**	**(8)**	**111**	**127**	**(16)**	**22**

Statement 6b: Analysis of other single till income (unaudited), Wales – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	19	11	(8)	98	70	(28)	19
Signalling shift managers	1	1	-	4	4	-	1
Local operations managers	1	1	-	5	5	-	1
Controllers	3	2	(1)	13	10	(3)	4
Electrical control room operators	-	1	1	-	3	3	-
Total signaller expenditure	**24**	**16**	**(8)**	**120**	**92**	**(28)**	**25**
Non-signaller expenditure							
Mobile operations managers	2	2	-	8	10	2	2
Managed stations	-	2	2	-	11	11	-
Performance	-	1	1	1	5	4	-
Customer relationship executives	-	-	-	1	2	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	3	1	(2)	9	6	(3)	2
Other	1	1	-	2	4	2	1
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	1	-	(1)	5	-	(5)	1
HQ - Performance and planning	-	-	-	1	-	(1)	-
HQ - Stations and customer services	-	-	-	1	-	(1)	1
HQ - Other	9	1	(8)	32	9	(23)	6
Other operating income	(1)	(1)	-	(7)	(6)	1	(2)
Total non-signaller expenditure	**15**	**7**	**(8)**	**53**	**41**	**(12)**	**11**
Total network operations expenditure	**39**	**23**	**(16)**	**173**	**133**	**(40)**	**36**
Support costs							
Core support costs							
Human resources	1	3	2	7	17	10	1
Information management	4	3	(1)	19	17	(2)	4
Government and corporate affairs	1	1	-	4	5	1	1
Group strategy	2	1	(1)	5	6	1	1
Finance	2	2	-	7	8	1	2
Business services	1	1	-	7	5	(2)	1
Accommodation	3	-	(3)	13	2	(11)	4
Utilities	4	1	(3)	14	4	(10)	-
Insurance	-	1	1	1	5	4	1
Legal and inquiry	-	-	-	-	2	2	-
Safety and sustainable development	1	-	(1)	5	2	(3)	1
Strategic sourcing	1	-	(1)	1	3	2	-
Business change	-	-	-	-	1	1	-
Other corporate functions	5	-	(5)	19	1	(18)	2
Core support costs	**25**	**13**	**(12)**	**102**	**78**	**(24)**	**18**
Other support costs							
Asset management services	1	3	2	10	23	13	1
Network Rail telecoms	3	2	(1)	10	10	-	2
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(1)	-	1	(5)	-	5	(1)
Commercial property	-	-	-	-	-	-	-
Group costs	-	-	-	(7)	(2)	5	(1)
Total other support costs	**3**	**5**	**2**	**8**	**32**	**24**	**1**
Total support costs	**28**	**18**	**(10)**	**110**	**110**	**-**	**19**
Traction electricity, industry costs and rates							
Traction electricity	3	4	1	4	5	1	1
Business rates	10	9	(1)	41	39	(2)	9
British transport police costs	4	1	(3)	20	7	(13)	4
RSSB costs	1	1	-	4	3	(1)	1
ORR licence fee and railway safety levy	1	1	-	8	5	(3)	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	-	(1)	-
Total traction electricity, industry costs and rates	**19**	**16**	**(3)**	**78**	**60**	**(18)**	**17**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**86**	**57**	**(29)**	**361**	**303**	**(58)**	**72**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are in higher than the determination assumption this year with the largest contribution from signaller costs, although British Transport Police and Support costs have also been higher. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination.

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

In £m 2018-19 prices unless stated

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are higher than the regulatory target this year, but broadly similar across the control period.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Accommodation – property expenses were higher than the determination, continuing the trend of earlier years of the control period. The determination expected that these costs would be negligible this control period, but this has not proven to be the case.

(8) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs across the control period are higher than the regulatory expectation owing to higher than expected charges, including costs at Subrook pumping station.

(9) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies.

(10) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

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

In £m 2018-19 prices unless stated

(11) Other corporate functions – costs are higher than the determination assumed this year and across the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

(12) Asset management services – costs are lower than the determination in the control period partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area).

(13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the control period mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.

(14) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs across the control period are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs this control period also benefitted from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5. Costs are similar to the previous year.

(15) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is higher than the regulator's assumption in the current year and control period mainly due extra British Transport Police costs. Costs are broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

(16) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated, resulting in higher costs this control period. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5. Costs are broadly in line with the previous year following the Valuation Office Agency's revaluation exercise.

(17) British Transport Police costs - expenses in the year are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year broadly in line with the previous year.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	20	20	22	20	19
MOMS	1	1	2	2	2
Control	2	2	3	3	3
Planning & Performance Staff Costs	-	2	1	3	3
Managed Stations Staff Costs	-	-	3	-	-
Operations Management Staff Costs	1	2	1	1	2
Other	6	5	4	7	10
Total operations & customer services costs	30	32	36	36	39
Total Network Operations	**30**	**32**	**36**	**36**	**39**
Support					
Human resources					
Functional support	1	1	1	1	1
Training (inc Westwood)	1	-	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	1	-	-	-
Total human resources	2	2	1	1	1
Information management					
Support	1	-	-	-	1
Projects	-	-	-	1	-
Licences	-	-	-	-	-
Business operations	4	3	3	3	4
Other	-	-	-	-	(1)
Total information management	5	3	3	4	4
Finance	1	1	1	2	2
Business Change	-	-	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	-	1
Planning & development	1	1	-	1	2
Safety & compliance	-	-	-	-	-
Other corporate services	1	1	3	1	1
Commercial property	2	2	2	4	3
Infrastructure Projects	-	(1)	(2)	(1)	(1)
Route Services	1	1	1	1	3
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	3	3	4	-	4
Network Rail Telecoms	2	2	1	2	3
Digital Railway	1	1	1	-	1
Safety Technical & Engineering	2	2	3	2	2
Government & Corporate Affairs	-	1	1	1	1
Business Services	1	2	2	1	1
Route Asset Management	2	1	1	-	1
Legal and inquiry	-	-	-	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	1	-	-	1	-
Redundancy/reorganisation costs	1	1	-	1	1
Staff incentives/Bonus Reduction	(2)	-	-	(1)	(1)
Accommodation & Support Recharges	(2)	(2)	(1)	(2)	(2)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	(1)	-	-	-	-
Other	-	(1)	1	1	1
Total group/central costs	(3)	(2)	-	-	(1)
Total support	**21**	**20**	**22**	**19**	**28**
Total network operations and support costs	**51**	**52**	**58**	**55**	**67**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Track	32	23	(9)	159	122	(37)	30
Signalling	14	9	(5)	62	50	(12)	13
Civils	10	11	1	58	59	1	8
Buildings	3	4	1	22	19	(3)	4
Electrical power and fixed plant	8	9	1	27	40	13	7
Telecoms	2	1	(1)	8	6	(2)	2
Other network operations	5	5	-	32	25	(7)	8
Asset management services	1	2	1	8	10	2	1
National Delivery Service	-	2	2	-	13	13	-
Property	-	1	1	-	1	1	-
Group	(1)	(1)	-	(7)	(5)	2	(2)
Total maintenance expenditure	**74**	**66**	**(8)**	**369**	**340**	**(29)**	**71**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6 and extra reactive maintenance works.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period. Costs in the year are broadly in line with 2017/18.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Electrical power and fixed plant – costs for the control period are lower than the regulatory assumption. As parts of the network in Wales are electrified it requires additional resource to ensure that the assets continue to work optimally. Delays in introducing some of the electrification programme (most notably the change control scope decisions made around the main line electrification) have reduced the need for the same level of resource, thus saving maintenance costs in this category.

(5) Other network operations – costs are higher than the regulator's expectation across the control period at a whole. Control period expenses includes extra safety and performance improvement costs. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

(6) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

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

In £m 2018-19 prices unless stated

(7) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, Wales

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	**PR13**	**Difference**	**Actual**	**PR13**	**Difference**	**Actual**
Track	47	21	(26)	283	190	(93)	65
Signalling	29	11	(18)	270	201	(69)	68
Civils	42	37	(5)	200	196	(4)	36
Buildings	17	9	(8)	44	52	8	7
Electrical power and fixed plant	7	2	(5)	13	21	8	2
Telecoms	2	1	(1)	14	13	(1)	2
Wheeled plant and machinery	4	2	(2)	20	32	12	5
Information Technology	7	5	(2)	32	23	(9)	5
Property	3	-	(3)	3	-	(3)	-
Other renewals	3	17	14	25	25	-	2
Total renewals expenditure	**161**	**105**	**(56)**	**904**	**753**	**(151)**	**192**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected which is a combination of higher like-for-like costs partly offset by reduced activity. Across the control period investment has been higher than the regulator expected, again due to higher underlying costs (with notably contributions from Track, Signalling and Civils) which has been offset by deferrals of activity. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). Investment this year is less than the previous year. This is mainly due to lower signalling and track investment.

(2) Track – costs are higher than the regulator assumed this year which is mostly due to higher underlying costs, continuing the trend of the earlier years in the control period. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. The determination assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. The higher like-for-like costs are a continuation of the issues noted above. In addition, High output costs have been higher than the regulator predicted as where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around three-quarters of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable Volumes delivered in the control period for Plan line activity was higher than the regulator assumed which offset reductions in High Output and refurbishment activity. In addition, less Switches & crossing refurbishment works were undertaken. Expenditure in the current year was lower than the previous year mainly due to reductions in High Output activity. In the current year, no High output works were planned in Wales reflecting the aforementioned problems with this method of delivery. This year also saw increases arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, continuing the trend from earlier years in the control period. The higher level of investment this year was largely a result of higher underlying costs, adding to the financial underperformance this control period. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). In addition, a major upgrade undertaken of the Cardiff area re-signalling encountered a number of difficulties (including delays in commissioning dates which, due to limited access availability, caused the project commissioning date to be postponed as well as contractor claims) which resulted in significant increases in the costs of the programme. Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are lower than the previous year which mainly reflects less expenditure on the North Wales Coast Phase 1 programme which is now largely complete. The level of signalling expenditure in a given year can fluctuate depending upon the individual large signalling schemes being undertaken at any time.

(4) Civils – expenditure in the year was higher than the regulator anticipated. Higher underlying costs have been partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination with most of the increase arising in the current year. The control period position reflects higher like-for-like costs largely offset by deferrals into control period 6. These higher underlying costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is higher than the previous year, with additional costs across most categories.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was higher than the regulator anticipated offsetting some of the underspends witnessed in the earlier years of the control period. This year, more activity was delivered at Franchised stations, although expenditure remained lower across the course of control period 5. Notable projects delivered this year included canopy and footbridge schemes at Rhyl and Llandudno Junction and works at Shrewsbury. Expenditure in the control period was lower partly due to deferral of activity and partly due to some efficiencies. As a result, Buildings financial outperformance has been (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment was higher than the previous year due to the aforementioned extra works on the Franchised station estate.

(6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year mitigating some of the underspend from earlier years of the control period. The higher expenditure this control period is a result of additional like-for-like costs largely offset by deferral of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Delays and changes to the scope of electrification enhancement has contributed to the reduction in investment across the control period. There are limited electrified assets in Wales that require replacing.

(7) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(8) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

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

In £m 2018-19 prices unless stated

(9) Other renewals includes the following notable variances:

a. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure has been lower in the control period as no programmes with sufficiently robust business cases were identified in Wales. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

b. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

c. Other - There is a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

d. CP4 rollover following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. There is no expenditure in the current year as the applicable schemes are now substantially complete.

Statement 9b: Detailed analysis of renewals expenditure, Wales

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	19	5	(14)	94	31	(63)
High output renewal	-	-	-	43	21	(22)
Plain line refurbishment	3	7	4	30	32	2
S&C renewal	8	1	(7)	51	60	9
S&C refurbishment	2	4	2	10	22	12
Track non-volume	4	2	(2)	20	13	(7)
Off track	11	2	(9)	35	11	(24)
Total track	**47**	**21**	**(26)**	**283**	**190**	**(93)**
Signalling						
Full conventional resignalling	15	3	(12)	183	61	(122)
Modular resignalling	1	1	-	36	63	27
ERTMS resignalling	-	-	-	-	1	1
Partial conventional resignalling	2	-	(2)	2	5	3
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	-	(2)	11	11	-
Level crossings	4	3	(1)	18	30	12
Minor works	4	3	(1)	15	26	11
Centrally managed costs	1	1	-	5	4	(1)
Other	-	-	-	-	-	-
Total signalling	**29**	**11**	**(18)**	**270**	**201**	**(69)**
Civils						
Underbridges	15	14	(1)	85	72	(13)
Overbridges	2	2	-	15	12	(3)
Bridgeguard 3	-	-	-	1	-	(1)
Major structures	-	2	2	-	6	6
Tunnels	4	4	-	7	16	9
Other assets	8	5	(3)	36	28	(8)
Structures other	3	4	1	7	26	19
Earthworks	10	6	(4)	49	36	(13)
Other	-	-	-	-	-	-
Total civils	**42**	**37**	**(5)**	**200**	**196**	**(4)**
Buildings						
Managed stations	-	-	-	-	-	-
Franchised stations	15	8	(7)	34	39	5
Light maint depots	-	1	1	1	5	4
Depot plant	-	-	-	1	4	3
Lineside buildings	2	-	(2)	3	2	(1)
MDU buildings	-	-	-	5	2	(3)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**17**	**9**	**(8)**	**44**	**52**	**8**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative 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	-	6	6
Fixed plant	7	1	(6)	13	15	2
Total electrical power and plant	**7**	**2**	**(5)**	**13**	**21**	**8**
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	-	-	2	5	3
SISS	-	1	1	-	1	1
Projects and other	-	-	-	3	3	-
Non-route capital expenditure	2	-	(2)	9	4	(5)
Total telecoms	**2**	**1**	**(1)**	**14**	**13**	**(1)**
Wheeled plant and machinery						
High output	1	-	(1)	5	7	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	-	(1)	6	7	1
Materials delivery	1	-	(1)	4	1	(3)
On track plant	1	1	-	4	5	1
Seasonal	-	-	-	1	3	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	-	-	-	-	6	6
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	**4**	**2**	**(2)**	**20**	**32**	**12**
Information Technology						
IM delivered renewals	7	4	(3)	30	21	(9)
Traffic management	-	1	1	2	2	-
Total information technology	**7**	**5**	**(2)**	**32**	**23**	**(9)**
Property						
MDUs/offices	3	-	(3)	3	-	(3)
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	**3**	**-**	**(3)**	**3**	**-**	**(3)**
Other renewals						
Asset information strategy	1	-	(1)	12	10	(2)
Intelligent infrastructure	3	1	(2)	6	6	-
Faster isolations	-	2	2	-	10	10
LOWS	-	-	-	1	1	-
Small plant	1	1	-	1	3	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	13	13	-	(5)	(5)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	7	-	(7)
Other	(2)	-	2	(2)	-	2
West Coast	-	-	-	-	-	-
Total other renewals	**3**	**17**	**14**	**25**	**25**	**-**
Total renewals	**161**	**105**	**(56)**	**904**	**753**	**(151)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Wales – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wales

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	7	9	2	38	74	36	7
Access charge supplement Income	(7)	(7)	-	(63)	(63)	-	(8)
Net (income)/cost	**-**	**2**	**2**	**(25)**	**11**	**36**	**(1)**
Schedule 8							
Performance element income	(4)	-	4	(11)	-	11	-
Performance element costs	4	-	(4)	13	1	(12)	3
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**-**	**-**	**-**	**2**	**1**	**(1)**	**3**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(16)	(23)	(4)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	1	2	1
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	3	1
Reporters fees	-	(1)	-
Other industry costs	-	2	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(15)**	**(17)**	**(2)**

Statement 10: Other information, Wales – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Wales – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, costs were lower than the determination. This was due to extra activity on renewals activity requiring possessions more than offset by higher underling costs. The higher like-for-like costs has resulted in financial outperformance being reported this year and across the control period, as shown in Statement 5a. This has been achieved through efficient planning, most notably utilising possessions required for Great Western Electrification Programme works. This has enabled reduced disruption as well as allowing possession costs to be shared. Combining a number of work activities in single possessions and making fewer late changes to possession plans has helped to create savings. Costs are in line with the previous year.

(2) Schedule 8 was broadly neutral for the year, but marginally higher for the control period. There have been a number of positive initiatives which have contributed, including increased focus on asset management and additional Rail head Train Treatment shifts to improve Autumn performance. This resulted in additional Maintenance costs but resulted in fewer passenger delays.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Traffic growth (both passenger and freight) has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6.

Statement 11:

There is no Statement 11 required for Wales

Statement 12: Volume incentives, Wales

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	**B**	**C**	**D**	
Passenger train miles (millions)	(15)	(3)	15	17	0.8%	1.61	pence per passenger train mile
Passenger farebox (millions)	(2)	0	251	260	3.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	1	1	1.5%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(3)	(1)	1,264	1,486	1.7%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(23)**	**(5)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the continued structural decline in the freight market and passenger growth which has not been kept up with the ambitious increases assumed in the determination. In the determination, the regulator expected Passenger train miles to increase by over 13 per cent across the control period. However, delays to major infrastructure improvements (such as Cardiff area re-signalling and electrification programmes) have not allowed for the capacity improvements and increases in passenger demand that the regulator expected.

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	37	20	40	70	571	38	24	45	75	600
	High Output Renewal	km	-	-	5	10	500	20	13	21	29	724
	Plain line Refurbishment	km	28	3	8	67	119	46	6	13	126	103
	S&C Renewal/Refurbishment	point ends	66	8	23	141	163	59	8	57	254	224
	Track Drainage	lm	7,770	4	10	23,751	0	8,232	4	10	28,537	0
	Fencing	km	62	4	8	111	72	54	4	8	145	55
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	18	2	4	25	160	7	2	4	11	364
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**41**	**98**	**-**	**-**	**-**	**61**	**158**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	152	9	54	152	355	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	95	20	34	95	358
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	2	1	1	2	500	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	1	1	1	1	1,000
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**10**	**55**	**-**	**-**	**-**	**21**	**35**	**-**	**-**
Civils	Underbridges	m^2	5,018	8	18	9,597	2	6,388	10	14	10,582	1
	Overbridges (incl BG3)	m^2	-	-	-	-	-	-	-	-	-	-
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	625	-	-	625	-	11	-	1	11	91
	Culverts	m^2	1,315	1	3	1,922	2	394	2	3	797	4
	Footbridges	m^2	230	1	3	1,104	3	342	-	4	1,130	4
	Coastal & Estuarial Defences	m	322	-	1	2,129	0	4,810	2	5	4,810	1
	Retaining Walls	m^2	-	-	-	-	-	553	2	2	553	4
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	434	7	12	1,062	11	542	5	15	1,365	11
	EW Drainage	m	9,330	-	1	20,690	0	10,052	1	3	19,792	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**17**	**38**	**-**	**-**	**-**	**22**	**47**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (FS)	m^2	333	-	2	1,087	2	372	-	-	372	-
	Canopies (FS)	m^2	2,111	2	2	4,311	0	-	-	-	-	-
	Train sheds (FS)	m^2	747	-	-	747	-	-	-	-	-	-
	Footbridges (FS)	m^2	615	3	5	1,223	4	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		33,958	3	5	39,884	0	6,560	1	1	6,560	0
	Light Maintenance Depots	m^2	1,530	-	-	1,530	-	60,000	-	-	60,000	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	22,335	-	-	22,335	-	1	-	-	1	-
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**8**	**14**	**-**	**-**	**-**	**1**	**1**	**-**	**-**

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	11	-	-	11	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	2	-	1	2	500	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	61	-	-	61	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	13	-	-	13	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	3	-	1	3	333
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		2	-	-	16	-	22	-	-	22	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	11	1	1	27	37
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**-**	**-**	**-**	**-**	**1**	**2**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - Plain line refurbishments had a higher unit cost in the year. This is due to the different mix of the work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There was a decrease in the high output unit cost in the year however there was hardly any delivery in the year so this all relates to legacy costs and volumes. There was a reduction in the unit cost for switches and crossings in the year. This was because the prior year contained volumes from the Cardiff Signalling Renewal Programme which massively overspent and led to negative financial performance. Fencing unit costs have increased due to the fact that a greater proportion of higher fences were renewed in the current year. Off-track unit costs more than halved due to level crossings projects. Level crossings are bespoke, and a range of unit costs is to be expected due to the differing complexity of the work.

Statement 1: Summary regulatory financial performance, Wessex

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	296	298	(2)	1,621	1,618	3	328
Fixed Income	58	58	-	164	161	3	29
Variable Income	110	126	(16)	547	601	(54)	108
Other Single Till Income	296	114	182	724	528	196	110
Opex memorandum account	(7)	-	(7)	(18)	-	(18)	(6)
Total Income	**753**	**596**	**157**	**3,038**	**2,908**	**130**	**569**
Operating expenditure							
Network operations	50	28	(22)	196	153	(43)	43
Support costs	45	37	(8)	182	201	19	36
Traction electricity, industry costs and rates	74	89	15	359	404	45	69
Network maintenance	123	85	(38)	552	465	(87)	116
Schedule 4	40	18	(22)	124	87	(37)	20
Schedule 8	69	-	(69)	202	1	(201)	56
Total operating expenditure	**401**	**257**	**(144)**	**1,615**	**1,311**	**(304)**	**340**
Capital expenditure							
Renewals	186	200	14	1,171	1,186	15	138
PR13 enhancement expenditure	165	145	(20)	731	733	2	196
Non PR13 enhancement expenditure	5	-	(5)	14	-	(14)	-
Total capital expenditure	**356**	**345**	**(11)**	**1,916**	**1,919**	**3**	**334**
Other expenditure							
Financing costs	164	174	10	720	744	24	176
Corporation tax (received)/paid	-	-	-	(1)	1	2	-
Total other expenditure	**164**	**174**	**10**	**719**	**745**	**26**	**176**
Total expenditure	**921**	**776**	**(145)**	**4,250**	**3,975**	**(275)**	**850**

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income variances in the current year and across the control period as a whole are due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Ntework Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income is slightly favourable across the control period. This is mainly due to variances between the inflation rate used to calculate charges payable by operators and rates used to uplift the regulatory target. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period is lower than the determination target with the lower electricity being the overwhelming contributor. Income is higher than the previous year mainly due to higher electricity income. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected and higher Business rates. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher control period 4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Support costs are higher than the determination this year. However, there have been savings across the control period over and above those targeted in the regulator's determination. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher market electricity costs. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator's assumption, which has been partly offset by deferral of those renewals activities that necessitate possessions. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Electrification & fixed plant) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures and the widely-publicised difficulties implementing the May timetable all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Costs are higher than the previous year reflecting increased disruption from network trespass and train performance struggles. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is slightly lower than the determination expected which is due to higher underlying costs (notably in Track, Signalling, Civils and Electrification) partially offset by a net deferral of activity. Expenditure in the control period is broadly in line with the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. This extra investment has brought expenditure across the control period broadly into line with the Hendy expectation. Expenditure is lower than the previous year which included delivery of key aspects of the Waterloo programme. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the determination expected mainly due to lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are lower than the regulatory target mainly due to the same factors. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wessex

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**4,327**	**4,230**	**97**
Indexation to 2017-18 prices	532	520	12
Opening RAB for the year (2017-18 prices)	**4,859**	**4,750**	**109**
Indexation for the year	155	152	3
Opening RAB (2018-19 prices)	**5,014**	**4,902**	**112**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	164	200	(36)
PR13 enhancements	161	331	(170)
Non-PR13 enhancements	4	-	4
Total enhancements	165	331	(166)
Amortisation	(226)	(226)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**5,117**	**5,207**	**(90)**

RAB Regulatory financial position - cumulative, Wessex

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2016-17	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**4,259**	**4,545**	**4,734**	**4,925**	**5,014**	**4,259**
Adjustments for the actual capital expenditure outturn in CP4	121	-	-	-	-	121
Renewals	304	303	189	117	164	1,077
PR13 enhancements	63	93	216	198	161	731
Non-PR13 enhancements	6	-	3	-	4	13
Total enhancements	69	93	219	198	165	744
Amortisation	(207)	(207)	(217)	(226)	(226)	(1,083)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	-	(1)
Closing RAB	**4,545**	**4,734**	**4,925**	**5,014**	**5,117**	**5,117**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.

(4) Renewals – renewals added to the RAB was lower than the regulator assumed this year. Whilst renewals expenditure this year was slightly lower than the regulatory expectation, the main reason is due to efficient overspend. Under the terms of the Regulatory Accounting Guidelines (June 2017) not all of the value of efficient overspends can be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are explained in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably lower than the regulator assumed. This is mainly due to reductions in the regulatory baselines for enhancements following the Hendy review. These changes are reflected in Statement 3 and how the route manages its expenditure, but no change is made to the original regulatory expectation for enhancements in Statement 2a.

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

In £m 2018-19 prices unless stated

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

   a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

   b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wessex

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**231**	**239**	**263**	**252**	**200**	**1,185**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	21	-	-	-	-	21
Capitalised financing on CP4 deferrals	-	1	1	1	1	4
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**252**	**240**	**264**	**253**	**201**	**1,210**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(44)	14	(143)	(197)	(83)	(453)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(2)	(5)	(12)	(19)	(39)
Adjustments for efficient overspend	122	53	87	82	65	409
Capitalised financing on efficient overspend	2	8	9	13	18	50
25% retention of efficient overspend	(30)	(12)	(23)	(20)	(16)	(101)
Capitalised financing on efficient overspend 25% retention	(1)	(2)	(2)	(2)	(4)	(11)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	5	4	1	-	3	13
Capitalised financing on efficient overspend through spend to save framework	1	-	1	(1)	-	1
Retention of efficient overspend through spend to save framework	-	-	-	1	(1)	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	(2)	-	-	-	-	(2)
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**304**	**303**	**189**	**117**	**164**	**1,077**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(5)	1	4	(6)
Adjustment for 25% retention of efficient overspend	30	12	22	19	17	100
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	(1)	(1)	-	1	3	2
Total actual renewals expenditure (see statement 9)	**332**	**309**	**206**	**138**	**186**	**1,171**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**57**	**66**	**131**	**262**	**331**	**847**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	24	(24)	-	-	-	-
Capitalised financing on CP4 deferrals	-	1	-	-	-	1
Baseline adjustments	-	35	88	(52)	(186)	(115)
Capitalised financing on Baseline adjustments	-	-	3	4	(1)	6
Adjustments to DfT funding	-	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (enhancements)	**81**	**78**	**222**	**214**	**144**	**739**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(22)	17	(6)	(15)	13	(13)
Capitalised financing on acceleration / (deferrals) of expenditure	-	(1)	-	(1)	(1)	(3)
Adjustments for efficient overspend / (underspend)	4	-	-	1	6	11
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-	-
25% retention of efficient overspend / (underspend)	(1)	-	-	(1)	(1)	(3)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	-	-
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	-	-	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**63**	**93**	**216**	**198**	**161**	**731**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	-	3	-	6	15
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(2)	(3)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-	-
Other adjustments	1	-	-	-	-	1
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	**6**	**-**	**3**	**-**	**4**	**13**
Total enhancements (added to the RAB - see statement 2a)	**69**	**93**	**219**	**198**	**165**	**744**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	-	(1)	(3)	(3)	1	(6)
Adjustment for 25% retention of efficient overspend	2	-	-	1	4	7
Other Adjustments	-	-	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	7	6	9	31	18	71
Other adjustments	(1)	-	1	-	-	-
Total actual enhancement expenditure (see statement 3)	**77**	**98**	**226**	**227**	**188**	**816**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track, Signalling, Civils and Electrification projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.

(10) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(11) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

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

In £m 2018-19 prices unless stated

(12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Reading, Ascot to Waterloo train lengthening and portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Wessex

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	(4)	(5)	10	11	1
Stations - Access for All (AfA)	-	(8)	(8)	17	14	(3)
Development	1	1	-	9	11	2
Level crossing safety	-	(1)	(1)	7	7	-
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	22	16	(6)	30	34	4
Total funds	**24**	**4**	**(20)**	**73**	**77**	**4**
Committed projects						
IEP Programme	-	-	-	-	-	-
Total committed projects	**-**	**-**	**-**	**-**	**-**	**-**
Named schemes						
The Electric Spine:						
DfT SOFA amount	-	-	-	-	-	-
Total Electric Spine projects	**-**	**-**	**-**	**-**	**-**	**-**
South East						
Waterloo	86	148	62	466	465	(1)
Total South East	**86**	**148**	**62**	**466**	**465**	**(1)**
HLOS capacity metric schemes						
South London HV traction power upgrade	1	(5)	(6)	4	4	-
Reading, Ascot to London Waterloo train lengthening	15	9	(6)	47	48	1
Wessex traction power supply upgrade	1	(5)	(6)	47	47	-
Total HLOS capacity metric schemes	**17**	**(1)**	**(18)**	**98**	**99**	**1**
CP4 Project Rollovers						
DC Regeneration	-	-	-	2	1	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	17	17	-
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	6	-	(6)
Total CP4 rollovers	**-**	**-**	**-**	**26**	**20**	**(6)**
Other projects						
Seven day railway projects	-	-	-	5	6	1
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	1	1	2	3	1
Depots and stabling	5	(7)	(12)	30	46	16
Income generating property schemes	33	-	(33)	52	17	(35)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(21)	-	21
Total other projects	**38**	**(6)**	**(44)**	**68**	**72**	**4**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**165**	**145**	**(20)**	**731**	**733**	**2**
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	5	-	(5)	6	-	(6)
Total Government sponsored schemes	**5**	**-**	**(5)**	**6**	**-**	**(6)**
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	**-**	**-**	**-**	**3**	**-**	**(3)**
Total Schemes promoted by third parties	**-**	**-**	**-**	**4**	**-**	**(4)**
Discretionary Investment	**-**	**-**	**-**	**1**	**-**	**(1)**
Total non PR13 enhancement expenditure	**5**	**-**	**(5)**	**14**	**-**	**(14)**
Total Network Rail funded enhancements (see Statement 1)	**170**	**145**	**(25)**	**745**	**733**	**(12)**
Third Party PAYG	**18**	**-**	**(18)**	**71**	**-**	**(71)**
Total enhancements (see statement 2b)	**188**	**145**	**(43)**	**816**	**733**	**(83)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £170m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£188m) less the PAYGO schemes funded by third parties (£18m).

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline which has brought the total control period investment broadly into step with the Hendy expectation. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2018-19 prices unless stated

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period was broadly consistent with the Hendy baseline. There was minimal investment this year as most of the projects had been delivered in earlier years of the control period.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. There was minimal investment this year as most of the projects had been delivered in earlier years of the control period. The reduction in the baseline this year arose from DfT reallocating enhancement budget to other parts of the portfolio.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure across the control period was broadly consistent with the Hendy baseline. There was minimal investment this year as most of the projects had been delivered in earlier years of the control period.

d. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure across the control period was broadly consistent with the Hendy baseline. There was minimal investment this year as most of the projects had been delivered in earlier years of the control period.

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 is higher than the baseline this year, investment across the control period remains lower than the Hendy baseline. This year there was major investment in works at Southampton.

(6) PR13 funded schemes – named schemes – the only programme in this category is Waterloo. This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Investment across the control period is broadly in line with the Hendy baseline. There was significant investment in this programme in the current year, including work on the old international section of the station to increase passenger capacity.

(7) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher the baseline. Across the control period, expenditure is in line with the Hendy baseline. The following notable variances between expenditure and baselines are set out below:

a. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex Route in CP6 and beyond. Expenditure on this programme is in line with the Hendy baseline across the control period.

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

In £m 2018-19 prices unless stated

b. Reading, Ascot to London Waterloo train lengthening - this project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Whilst expenditure across the control period is broadly in line with the Hendy target, not all of the outputs have been delivered yet. As a result of these underlying costs financial underperformance has been recognised (refer to Statement 5a) which has been offset by deferral.

c. Wessex traction power supply upgrade – the aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure across the control period is in line with the Hendy baseline which has been revised through the change control process.

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

a. Package 7,10 Car Park West Suburban Railway – the project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline for the current year and the control period. Expenditure in the current year is minimal as this programme is substantially complete.

b. Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure in the current year is limited as most of the programmes are now complete.

(9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline this control period due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is higher than the Hendy assumption mainly due to higher investment in Income generating schemes. Notable variances to the baseline include:

a. Depots & stabling - the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is higher than the baseline, reversing some, but not all, of the underspends experienced eelier tin the control period. The lower spend across the control period is due to fewer appropriate schemes being identified compared to the Hendy assumption. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

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

In £m 2018-19 prices unless stated

b. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the current year is in higher than the regulator's target which has resulted in the higher expenditure across the control period. Notable schemes delivered this year included purchases of items around Clapham Junction station to facilitate long-term strategic operations around station redevelopments in this area, and development of facilities at Waterloo station.

c. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by a corresponding amount (refer to Statement 2a).

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – the main programme this year relates to delays to timetable publication which have resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. These extra costs have been included in the assessment of financial performance (Statement 5).

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. PAYGO – notable projects delivered this year include Axe Valley flood mitigation works to improve asset resilience and investment in sidings facilities for trains.

Statement 4: Net debt and financial ratios, Wessex

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

	2018-19			Cumulative		
(£m, nominal prices)	Actual	PR13	Difference	Actual	PR13	Difference
Opening net debt	**3,629**	**3,382**	**(247)**	**2,591**	**2,527**	**(64)**
Income						
Grant income	(296)	(298)	(2)	(1,527)	(1,525)	2
Fixed charges	(58)	(58)	-	(157)	(154)	3
Variable charges	(110)	(126)	(16)	(516)	(568)	(52)
Other single till income	(296)	(114)	182	(695)	(500)	195
Total income	**(760)**	**(596)**	**164**	**(2,895)**	**(2,747)**	**148**
Expenditure						
Network operations	50	28	(22)	187	146	(41)
Support costs	45	37	(8)	170	189	19
Traction electricity, industry costs and rates	74	89	15	336	383	47
Network maintenance	123	85	(38)	521	440	(81)
Schedule 4	40	18	(22)	118	83	(35)
Schedule 8	69	-	(69)	194	1	(193)
Renewals	186	200	14	1,097	1,117	20
PR13 enhancement	165	331	166	697	819	122
Non-PR13 enhancement	5	-	(5)	15	-	(15)
Total expenditure	**757**	**788**	**31**	**3,335**	**3,178**	**(157)**
Financing						
Interest expenditure on nominal debt - FIM covered	17	65	48	138	252	114
Interest expenditure on index linked debt - FIM covered	19	24	5	92	106	14
Expenditure on the FIM	19	40	21	115	169	54
Interest expenditure on government borrowing	75	-	(75)	192	-	(192)
Interest on cash balances held by Network Rail	(1)	(3)	(2)	(2)	(9)	(7)
Total interest costs	**129**	**126**	**(3)**	**535**	**518**	**(17)**
Accretion on index linked debt - FIM covered	35	48	13	153	226	73
Total financing costs	**164**	**174**	**10**	**688**	**744**	**56**
Corporation tax	-	-	-	(1)	1	2
Other	(18)	-	18	54	45	(9)
Movement in net debt	**143**	**366**	**223**	**1,181**	**1,221**	**40**
Closing net debt	**3,772**	**3,748**	**(24)**	**3,772**	**3,748**	**(24)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	0.71	0.72	0.71	0.07	1.03	0.88
FFO/interest	2.95	2.94	2.65	1.87	2.78	2.66
Net debt/RAB (gearing)	69.4%	70.0%	71.6%	74.7%	73.7%	72.0%
FFO/debt	8.9%	8.4%	8.3%	6.3%	9.5%	9.0%
RCF/debt	5.7%	5.4%	5.3%	2.9%	6.1%	5.6%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.5%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 £0.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.

(3) Net debt attributable to Wessex at 31 March 2019 is in line with the regulatory assumption. Extra income, including the proceeds of the asset divestment this year, reduced enhancement investment and lower interest rates all helped to offset higher operational costs and extra compensation costs under the performance regime.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed this year. This is largely due to lower effective interest rates, especially accreting instruments, which has offset the higher than expected average net debt. The favourable position in the control period is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) along with lower inflation rates this year than the regulator assumed. In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB. Costs are lower than the previous year which reflects the lower inflation rates experienced in the current year.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16)Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2018/19 shows, the regulator expected Network Rail not to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to the distortive impact of revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was negative as it would have negative cashflows this year. This is due to higher performance regime costs (Schedule 8 and Schedule 4), Network operations and Maintenance costs as described elsewhere in these accounts. The ratio has improved since the current year, but this is due to the impact of the aforementioned asset divestment. Once the impact of this transaction is removed, the ratio has declined which is mainly due to higher performance regime costs in 2018/19. In addition, for the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period).

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

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

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is slightly higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings and proceeds received from the asset divestment programme. Higher overall capital spend is also a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail’s business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail’s debt that is covered by the surplus funds it generates from its activities. In the current year, the result was slightly higher than the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result to around 5 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and performance regime (Schedule 8 and Schedule 4) costs. The decline in the underlying ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator’s efficiency targets for Maintenance, Network Operations and performance regime8, which all get harder with each passing year.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wessex

In £m 2018-19 prices unless stated

			2018-19					
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	296	298	(2)	(2)	-	-	-	-
Fixed Income	58	58	-	-	-	-	-	-
Variable Income	63	67	(4)	-	-	-	(4)	(4)
Other Single Till Income	296	114	182	171	-	-	11	11
Opex memorandum account	(7)	-	(7)	(2)	-	-	(5)	(5)
Total Income	**706**	**537**	**169**	**167**	**-**	**-**	**2**	**2**
Expenditure								
Network operations	50	28	(22)	-	-	-	(22)	(22)
Support costs	45	37	(8)	1	-	-	(9)	(9)
Industry costs and rates	26	27	1	2	-	-	(1)	(1)
Traction electricity	1	3	2	-	-	-	2	2
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	123	85	(38)	-	(4)	-	(34)	(34)
Schedule 4 costs	40	18	(22)	-	8	-	(30)	(30)
Schedule 8 costs	69	-	(69)	-	-	-	(69)	(69)
Renewals	186	200	14	1	78	-	(65)	(16)
PR13 Enhancements	165	145	(20)	-	(12)	-	(8)	(2)
Non PR13 Enhancements	5	-	(5)	-	(5)	-	-	-
Financing Costs	164	174	10	10	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	(2)	-	2	2
Total Expenditure	**874**	**717**	**(157)**	**14**	**63**	**-**	**(234)**	**(179)**
Total:			**12**	**181**	**63**	**-**	**(232)**	**(177)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(177)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(29)
Under-delivery of train performance requirements (CaSL)	(7)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(36)**
Total financial out / (under) performance to be recognised	**(213)**

Statement 5a: Total financial performance, Wessex - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	**Adjusted PR13**	**Variance to adjusted PR13**	**Due to:**	**Variance not included in total financial performance**	**Variances in volume of work**	**Other adjustments to PR13**	**Final Variance**	**Financial out / (under) performance**
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income									
Grant Income	1,621	1,618	3		3	-	-	-	-
Fixed Income	164	161	3		3	-	-	-	-
Variable Income	328	341	(13)		-	-	-	(13)	(13)
Other Single Till Income	724	528	196		171	-	-	25	25
Opex memorandum account	(18)	-	(18)		(9)	-	-	(9)	(9)
Total Income	**2,819**	**2,648**	**171**		**168**	**-**	**-**	**3**	**3**
Expenditure									
Network operations	196	153	(43)		-	-	-	(43)	(43)
Support costs	182	201	19		3	-	-	16	16
Industry costs and rates	131	127	(4)		4	-	-	(8)	(8)
Traction electricity	9	15	6		-	-	-	6	6
Reporter's fees	-	2	2		1	-	-	1	1
Network maintenance	552	465	(87)		-	18	-	(105)	(105)
Schedule 4 costs	124	87	(37)		-	27	-	(64)	(64)
Schedule 8 costs	202	1	(201)		-	-	-	(201)	(201)
Renewals	1,171	1,186	15		2	425	-	(412)	(103)
PR13 Enhancements	731	733	2		-	15	-	(13)	(4)
Non PR13 Enhancements	14	-	(14)		-	(14)	-	-	-
Financing Costs	720	744	24		24	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	(1)	1	2		-	-	-	2	2
Total Expenditure	**4,031**	**3,715**	**(316)**		**34**	**471**	**-**	**(821)**	**(503)**
Total:			**(145)**		**202**	**471**	**-**	**(818)**	**(500)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(500)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(100)
Under-delivery of train performance requirements (CaSL)	(30)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(4)
Missed Enhancement milestones	(1)
Total adjustment for under-delivery outputs	**(135)**
Total financial out / (under) performance to be recognised	**(635)**

Statement 5a: Total financial performance, Wessex - continued

In £m 2018-19 prices unless stated

	2018-19			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	(47)	(59)	12	(219)	(260)	41
Total variance not included in total financial performance:	**(47)**	**(59)**	**12**	**(219)**	**(260)**	**41**
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Property Divestment	171	-	171	171	-	171
Total variance not included in total financial performance:	**171**	**-**	**171**	**171**	**-**	**171**
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	1	-	1	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total financial performance:	**1**	**-**	**1**	**3**	**-**	**3**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	47	59	(12)	219	260	(41)
Total variance not included in total financial performance:	**47**	**59**	**(12)**	**219**	**260**	**(41)**
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	1	-	1	2	-	2
Total variance not included in total financial performance:	**1**	**-**	**1**	**2**	**-**	**2**

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such differences.

(2) Fixed income – the variances that have are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such differences.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(3) Variable income – across the control period, Network Rail has run fewer trains than expected and so has achieved less Capacity charge income than the regulatory target. This has partly been due to the high levels of disruptive enhancements that have taken place on the network in control period 5 as well as passenger demand net rising as quickly as the regulator assumed in their PR13 determination. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial outperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. The outperformance recognised in Other single till income this year is mainly the result of extra Stations and Depot income, continuing the trend of the earlier years of the control period. This year also included the benefit of Clapham Junction and Guildford being reclassified to Managed stations which means that Network Rail earns more income from operating the stations but faces increased Network operations costs. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Industry passenger demand has not increased as quickly as the regulator assumed which has meant lower farebox income and slower than expected passenger growth in the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(6) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Additional costs have also been incurred as a result of Clapham Junction and Guildford stations being reclassified to be Managed stations. This means that Network Rail incurs the additional costs of running the stations but receives additional income. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – this year, Support costs are higher than the determination. The largest contribution is from higher Property expenses. There has, however, been outperformance in earlier years of the control period which has resulted in outperformance across CP5. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(8) Industry costs and rates – the negative FPM in the control period is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variance for the control period arises from similar causes. In addition, extra costs were incurred in 2017/18 in response to the terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail.

(9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance). The control period position reflects similar factors to those noted above.

(10) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(11) Schedule 4 costs – this year costs are greater than the regulator expected which is mainly due to higher like-for-like costs, which have been partly offset by reduced delivery of renewals that require possessions. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events, such as Storm Emma in 2017/18. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

(12) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

(13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track, civils and CP4 rollover projects), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(14) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Reading, Ascot to Waterloo train lengthening and portfolio-wide costs relating to delays in publishing train timetables this year and the additional possessions costs that engenders. The control period position is largely dominated by these same programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected. 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 this control period are lower than the regulator expected mainly due to lower effective interest rates (notably inflation which impacts accreting debt). This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Wessex – continued

In £m 2018-19 prices unless stated

Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2018/19, continuing the trend of earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

(5) Missed enhancement milestones – in line with the regulator's rules where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 there have been no missed outputs since which have impacted customer outputs.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	14	30	(16)	(4)	-	(4)	-	-
Signalling	4	16	(12)	(3)	-	(3)	-	-
Civils	3	19	(16)	(4)	-	(4)	-	-
Buildings	6	10	(4)	(1)	-	(1)	-	-
Electrical power and fixed plant	(12)	(4)	(8)	(2)	-	(1)	(1)	-
Telecoms	1	1	-	-	-	-	-	-
Wheeled plant and machinery	-	-	-	-	-	-	-	-
IT	(1)	(1)	-	-	-	-	-	-
Property	2	2	-	-	-	-	-	-
Other renewals	(3)	6	(9)	(2)	-	(2)	-	-
Total	**14**	**79**	**(65)**	**(16)**	**-**	**(15)**	**(1)**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(15)	117	(132)	(33)	-	(31)	(2)	-
Signalling	104	172	(68)	(17)	-	(19)	2	-
Civils	(20)	68	(88)	(22)	-	(18)	(4)	-
Buildings	7	23	(16)	(4)	-	(4)	-	-
Electrical power and fixed plant	1	53	(52)	(13)	-	(7)	(6)	-
Telecoms	14	14	-	-	-	-	-	-
Wheeled plant and machinery	22	22	-	-	-	-	-	-
IT	(6)	(6)	-	-	-	-	-	-
Property	14	14	-	-	-	-	-	-
Other renewals	(106)	(50)	(56)	(14)	-	(5)	(9)	-
Total	**15**	**427**	**(412)**	**(103)**	**-**	**(84)**	**(19)**	**-**

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

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

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR’s Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

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

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

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year some of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Across the control period, the underperformance expected in the CP5 Business Plan represents around 40 per cent of the total extra costs reported in CP5. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. Increased minor works has also been required due to faster than expected deterioration of key assets at Feltham, Havant and Southampton. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Individual programmes have suffered from project elongation and so increased total costs, notably Feltham re-signalling. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network, such as Withy Beds and Wrecclesham embankment.

(5) Buildings – financial underperformance has been reported across the control period. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty.

(6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119, hook switch solutions) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA, programme elongation, which has been exacerbated by priority for plant being given to support other programmes, and increases in the programme scope. Extra volumes have been required on certain projects which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

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

In £m 2018-19 prices unless stated

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

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this control period.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period includes notable contributions from Basingstoke campus development, electrification projects and FTN.

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

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	62	62	-	-	-
Seven day railway	-	(1)	-	1	-
Reading, Ascot to Waterloo Train Lengthening	(6)	(3)	-	(3)	-
T12 Enhancements	(5)	-	-	(5)	(1)
Stations - Access for All (AfA)	(8)	(6)	-	(2)	(2)
Other Enhancements	(68)	(69)	-	1	1
Total	**(25)**	**(17)**	**-**	**(8)**	**(2)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	(1)	(1)	-	-	-
Seven day railway	1	-	-	1	-
Reading, Ascot to Waterloo Train Lengthening	1	14	-	(13)	(3)
T12 Enhancements	(5)	-	-	(5)	(1)
Stations - Access for All (AfA)	(3)	(1)	-	(2)	(2)
Other Enhancements	(5)	(11)	-	6	2
Total	**(12)**	**1**	**-**	**(13)**	**(4)**

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

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Reading, Ascot to Waterloo Train Lengthening – the anticipated costs of this programme have increased this control period resulting in financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council requirements.

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

In £m 2018-19 prices unless stated

(2) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

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

Statement 5d: Total financial performance - REBS performance, Wessex

In £m 2018-19 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2018-19			
	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	85	92	(7)	-	-	-	(7)
Capacity charge	162	166	(4)	-	-	-	(4)
Electricity asset utilisation charge	6	6	-	-	-	-	-
Property income	233	219	14	-	-	-	14
Expenditure							
Network operations	196	145	(51)	-	-	-	(51)
Support costs	182	195	13	-	2	-	11
RSSB and BT Police	43	38	(5)	-	-	-	(5)
Network maintenance	552	483	(69)	19	-	-	(88)
Schedule 4 costs	124	95	(29)	35	-	-	(64)
Schedule 8 costs	202	-	(202)	-	-	-	(202)
Renewals	1,171	1,115	(56)	356	-	(309)	(103)
Total REBS performance			**(396)**	**410**	**2**	**(309)**	**(499)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(100)
Under-delivery of train performance requirements (CaSL)	(30)
Missed milestones for asset management - data quality	-
Missed Enhancement milestones	(4)
Total adjustment for under delivery of outputs and reduced sustainability	**(134)**
Cumulative performance to end of 2018-19	**(633)**
Less cumulative outperformance recognised up to the end of 2017-18	(421)
Net REBS performance for 2018-19	**(212)**

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 2018-19 prices unless stated

Notes:

(1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.

(2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.

(3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.

(4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Wessex

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**296**	**298**	**(2)**	**1,621**	**1,618**	**3**	**328**
Franchised track access income							
Fixed charges	**58**	**58**	**-**	**164**	**161**	**3**	**29**
Variable charges							
Variable usage charge	15	17	(2)	74	84	(10)	14
Traction electricity charges	47	59	(12)	219	260	(41)	41
Electrification asset usage charge	1	2	(1)	6	6	-	1
Capacity charge	32	33	(1)	161	165	(4)	31
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	15	15	-	87	86	1	21
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**110**	**126**	**(16)**	**547**	**601**	**(54)**	**108**
Total franchised track access income	**168**	**184**	**(16)**	**711**	**762**	**(51)**	**137**
Total franchised track access and grant income	**464**	**482**	**(18)**	**2,332**	**2,380**	**(48)**	**465**
Other single till income							
Property income	227	57	170	413	249	164	46
Freight income	2	4	(2)	12	15	(3)	3
Open access income	1	1	-	6	5	1	2
Stations income	42	34	8	187	170	17	37
Facility and financing charges	13	12	1	63	56	7	13
Depots Income	11	6	5	43	32	11	9
Other income	-	-	-	-	1	(1)	-
Total other single till income	**296**	**114**	**182**	**724**	**528**	**196**	**110**
Total income	**760**	**596**	**164**	**3,056**	**2,908**	**148**	**575**

Statement 6a: Analysis of income, Wessex – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is mainly due to reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail's commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the differences in traction electricity income received. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with contributions from higher traction electivity income and extra stations revenue.

Statement 6a: Analysis of income, Wessex – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

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

(4) Fixed charges – fixed charge income was higher than the determination across the control period. This was due to differences in the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was lower than the regulator expected this control period as a result of lower market prices. Again, this reduction in income has been broadly offset by reductions in the costs Network Rail has to pay suppliers to acquire electricity (as shown in Statement 7a). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrification assets but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, Wessex – continued

In £m 2018-19 prices unless stated

(6) Variable income – income in the control period is lower than the regulator assumed. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, notably as part of the Waterloo development. In addition, customer demand has not grown at the speed assumed by the determination.

(7) Capacity charge – income in the control period is lower than the regulator assumed. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, notably as part of the Waterloo development. In addition, customer demand has not grown at the speed assumed by the determination.

(8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. Income over the control period was in line with regulator's expectation as, over the 5 years, the inflation impact upon Schedule 4 access charge supplements was neutral. Income was lower than the previous year, which was in line with the regulator's assumption.

(9) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Wessex route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income is broadly in line with the determination target this year as additional property sales have largely mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Even without these funding reductions, achieving the determination targets would have been highly unlikely given the yields on investment assumed by the regulator. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is lower than the regulator assumed as lower property rental income has been partly offset by extra revenue from property disposals. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved this year.

Statement 6a: Analysis of income, Wessex – continued

In £m 2018-19 prices unless stated

(10) Freight Income – this is below the regulator's determination across the control period mainly due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has significantly decreased this control period.

(11) Stations income – revenue earned this year was higher than the regulator expected, continuing the trend of earlier years of the control period, as additional services were offered to operators. This year also included the benefit of Clapham Junction and Guildford being reclassified to Managed stations which means that Network Rail earns more income from operating the stations but faces increased Network operations costs (refer to Statement 7a). Revenue was higher than the previous year due to the aforementioned reclassification which took effect from April 2018.

(12) Facility and financing charges – income in this category is higher than the regulator assumed in its' determination in the control period. This is due to Network Rail undertaking providing additional services to the main franchise operator in the route for services over and above those the regulator expected in the CP5.

(13) Depots income – revenue earned this year is higher than the regulator expected, continuing the trend of the earlier years of the control period, as extra services were provided to operators.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	44	57	(13)	203	246	(43)	42
Property sales	183	5	178	210	25	185	4
Adjustment for commercial opex	-	(5)	5	-	(22)	22	-
Total property income	**227**	**57**	**170**	**413**	**249**	**164**	**46**
Freight income							
Freight variable usage charge	2	2	-	11	8	3	2
Freight traction electricity charges	-	1	(1)	-	3	(3)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	1	1	-	1
Freight only line charge	-	1	(1)	-	2	(2)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	**2**	**4**	**(2)**	**12**	**15**	**(3)**	**3**
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	1	1	-	6	5	1	2
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	**1**	**1**	**-**	**6**	**5**	**1**	**2**
Stations income							
Managed stations income							
Long term charge	5	3	2	16	16	-	4
Qualifying expenditure	10	4	6	27	18	9	4
Total managed stations income	15	7	8	43	34	9	8
Franchised stations income							
Long term charge	16	18	(2)	94	90	4	19
Stations lease income	11	9	2	50	46	4	10
Total franchised stations income	27	27	-	144	136	8	29
Total stations income	**42**	**34**	**8**	**187**	**170**	**17**	**37**
Facility and financing charges							
Facility charges	13	12	1	63	56	7	13
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**13**	**12**	**1**	**63**	**56**	**7**	**13**
Depots income	**11**	**6**	**5**	**43**	**32**	**11**	**9**
Other	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**
Total other single till income	**296**	**114**	**182**	**724**	**528**	**196**	**110**

Statement 6b: Analysis of other single till income (unaudited), Wessex – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	14	(1)	70	79	9	14
Signalling shift managers	2	1	(1)	10	5	(5)	3
Local operations managers	1	1	-	12	6	(6)	1
Controllers	4	2	(2)	15	12	(3)	4
Electrical control room operators	2	1	(1)	11	4	(7)	2
Total signaller expenditure	**24**	**19**	**(5)**	**118**	**106**	**(12)**	**24**
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	14	11	(3)	3
Managed stations	10	3	(7)	27	14	(13)	6
Performance	2	1	(1)	11	5	(6)	2
Customer relationship executives	-	-	-	-	3	3	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	4	7	3	-
Other	12	1	(11)	32	4	(28)	9
Operations delivery	-	-	-	(10)	-	10	(1)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	3	2	(1)	12	10	(2)	2
Other operating income	(4)	(1)	3	(12)	(7)	5	(2)
Total non-signaller expenditure	**26**	**9**	**(17)**	**78**	**47**	**(31)**	**19**
Total network operations expenditure	**50**	**28**	**(22)**	**196**	**153**	**(43)**	**43**
Support costs							
Core support costs							
Human resources	1	4	3	8	20	12	1
Information management	7	4	(3)	26	21	(5)	4
Government and corporate affairs	1	1	-	5	6	1	1
Group strategy	1	1	-	3	7	4	1
Finance	2	2	-	7	9	2	2
Business services	2	1	(1)	8	4	(4)	1
Accommodation	6	10	4	36	50	14	7
Utilities	5	4	(1)	19	21	2	3
Insurance	2	4	2	15	22	7	3
Legal and inquiry	-	-	-	2	2	-	-
Safety and sustainable development	2	-	(2)	10	3	(7)	2
Strategic sourcing	1	1	-	4	3	(1)	1
Business change	-	-	-	1	1	-	-
Other corporate functions	6	-	(6)	21	1	(20)	4
Core support costs	**36**	**32**	**(4)**	**165**	**170**	**5**	**30**
Other support costs							
Asset management services	3	3	-	15	15	-	3
Network Rail telecoms	4	3	(1)	19	20	1	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(11)	-	11	(2)
Commercial property	6	(1)	(7)	8	(3)	(11)	3
Group costs	(2)	-	2	(14)	(2)	12	(1)
Total other support costs	**9**	**5**	**(4)**	**17**	**31**	**14**	**6**
Total support costs	**45**	**37**	**(8)**	**182**	**201**	**19**	**36**
Traction electricity, industry costs and rates							
Traction electricity	48	62	14	228	275	47	42
Business rates	16	18	2	76	83	7	17
British transport police costs	7	6	(1)	38	33	(5)	8
RSSB costs	-	-	-	5	2	(3)	1
ORR licence fee and railway safety levy	2	2	-	10	8	(2)	1
Reporters fees	-	-	-	-	2	2	-
Other industry costs	1	1	-	2	1	(1)	-
Total traction electricity, industry costs and rates	**74**	**89**	**15**	**359**	**404**	**45**	**69**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**169**	**154**	**(15)**	**737**	**758**	**21**	**148**

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

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumption this year. Higher signaller and Support costs have been partly offset by lower Traction electricity costs. Total costs are higher than the previous year as costs were higher in each of the three categories this year.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. This is partly due to exiting control period 4 with a higher cost base that the regulator assumed as efficiencies anticipated to occur in the final years of that control period did not materialise. From this starting position, achieving the determination cost targets in control period 5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements and represented the main tactic for reducing Network operations costs in control period 5. However, it has transpired that the assumptions of possible savings were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to costs, at least in the short term. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Additional costs have also been incurred as a result of Clapham Junction and Guildford stations being reclassified to be Managed stations. This means that Network Rail incurs the additional costs of running the stations but receives additional income (refer to Statement 6a). Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, mainly due to the aforemented reclassification of stations which took effect from April 2018.

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

In £m 2018-19 prices unless stated

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are higher than the regulatory target this year. However, over the course of the control period there have substantial savings well in excess of the regulator's targets.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

(7) Finance – costs are lower than the determination across the control period. This is mainly due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support this new organisational model to develop tighter control of costs and a better level of service. This results in extra costs reported under the Other corporate services heading.

(8) Accommodation – these property expenses were lower than the determination this year and across the control period. Savings were due to Network Rail utilising a cheaper property portfolio than the regulator assumed when it set the determination. This is mainly due to operating a cheaper portfolio, including relocating operations from London to Basingstoke. There have also been savings in the corporate office estate, primarily from relocation of functions away from London to, for example, Milton Keynes.

(9) Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

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

In £m 2018-19 prices unless stated

(10) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

(11) Other corporate functions – costs are higher than the determination assumed this control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

(12)Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(13)Commercial Property – net costs is the year are higher than the regulatory estimate which mainly relates to the transfer of Guildford and Clapham Junction stations from Franchised stations to Managed stations. Network Rail generates more revenue as a result of the transfer from rents charged to tenants but incurs additional costs. Costs across the control period are higher than the regulator assumed due to these extra costs along with increased doubtful debt expenses earlier in the control period. Costs are higher than the previous year due to the aforementioned station this transfer.

(14)Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Costs for the control period are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. The credit recognised in Group this year is in line with the previous year.

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

In £m 2018-19 prices unless stated

(15) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period mainly due to lower traction electricity costs. Costs are higher than the previous year due to increases in the market prices of electricity income which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(16) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators.

(17) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were lower than the regulator anticipated. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Costs for the control period are lower mainly due to the new valuations which took effect in 2017/18 and so resulted in lower costs in the final two years of the control period.

(18) British Transport Police costs - expenses in the control period are higher than the determination assumed. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Costs this control period also includes additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge) as well as Network Rail acquiring additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

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

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	19	19	18	17	17
MOMS	1	2	3	3	3
Control	3	2	3	5	4
Planning & Performance Staff Costs	4	4	1	5	6
Managed Stations Staff Costs	1	1	-	3	3
Operations Management Staff Costs	3	3	4	2	3
Other	4	2	6	8	14
Total operations & customer services costs	35	33	35	43	50
Total Network Operations	**35**	**33**	**35**	**43**	**50**
Support					
Human resources					
Functional support	-	1	2	1	1
Training (inc Westwood)	1	1	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	-	-	-
Other	-	(1)	-	-	-
Total human resources	2	2	2	1	1
Information management					
Support	1	-	-	-	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	4	5	5	4	6
Other	-	-	-	-	-
Total information management	5	5	5	4	7
Finance	1	1	1	2	2
Business Change	-	1	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	1	-	1	1
Planning & development	1	-	-	1	1
Safety & compliance	-	-	-	-	-
Other corporate services	1	1	1	3	2
Commercial property	7	7	8	10	12
Infrastructure Projects	(3)	(2)	(2)	(2)	(2)
Route Services	2	3	3	1	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	4	4	3	3	5
Network Rail Telecoms	5	4	3	3	4
Digital Railway	1	3	2	1	1
Safety Technical & Engineering	4	3	4	4	3
Government & Corporate Affairs	2	1	-	1	1
Business Services	2	1	2	1	2
Route Asset Management	1	(1)	(1)	-	-
Legal and inquiry	-	1	1	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	4	6	(1)	3	2
Redundancy/reorganisation costs	1	1	1	1	1
Staff incentives/Bonus Reduction	(2)	(1)	-	(1)	-
Accommodation & Support Recharges	(2)	(2)	(2)	(2)	(1)
Commercial claims settlements	-	(2)	-	-	-
ORR financial penalty	(2)	-	-	-	-
Other	-	-	(1)	1	(1)
Total group/central costs	(1)	2	(3)	2	1
Total support	**35**	**37**	**29**	**36**	**45**
Total network operations and support costs	**70**	**70**	**64**	**79**	**95**

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

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	49	32	(17)	226	185	(41)	45
Signalling	17	12	(5)	81	65	(16)	17
Civils	10	10	-	45	52	7	9
Buildings	9	5	(4)	21	29	8	11
Electrical power and fixed plant	7	5	(2)	32	26	(6)	7
Telecoms	2	1	(1)	10	8	(2)	2
Other network operations	25	13	(12)	121	69	(52)	22
Asset management services	3	4	1	17	16	(1)	3
National Delivery Service	-	4	4	(3)	21	24	(1)
Property	2	1	(1)	7	3	(4)	2
Group	(1)	(2)	(1)	(5)	(9)	(4)	(1)
Total maintenance expenditure	**123**	**85**	**(38)**	**552**	**465**	**(87)**	**116**

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

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are higher than 2017/18 due to increased activity ahead of the challenges set out in the regulator's control period 6 determination.

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

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Civils – costs were in line with the determination mainly as a result of extra civils inspection offsetting lower reactive maintenance expenditure. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period are lower than the determination mainly due to lower extra reactive maintenance which has been partly offset by higher asset inspection costs.

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

In £m 2018-19 prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reversing the trend of the earlier years of the control period. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs across the control period are higher than the regulator assumed continuing the trend of the earlier years of the control period. This mainly arises from difficulties achieving the challenging efficiencies included in the determination. In addition, lower than expected delivery of electrification renewals work has necessitated additional remediation works to maintain asset condition and performance.

(7) Other network operations – costs for the current year are higher than the determination assumed, continuing the trend from earlier years of the control period. The higher costs in the control period also included the impact of extra safety and performance improvement costs. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. The higher costs also include the impact of transitional costs incurred as a result of consolidating delivery units in Wessex. This will generate savings in the medium and long-term but necessitates some short time investment to realise these efficiencies.

(8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the control period represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

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

In £m 2018-19 prices unless stated

(9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed across the control period due to additional vehicle purchases completed towards the end of the previous control period. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, Wessex

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	36	50	14	320	305	(15)	29
Signalling	34	38	4	198	302	104	30
Civils	26	29	3	186	166	(20)	20
Buildings	6	12	6	89	96	7	2
Electrical power and fixed plant	28	16	(12)	116	117	1	19
Telecoms	9	10	1	25	39	14	4
Wheeled plant and machinery	6	6	-	33	55	22	6
Information Technology	8	7	(1)	47	41	(6)	5
Property	-	2	2	3	17	14	1
Other renewals	33	30	(3)	154	48	(106)	22
Total renewals expenditure	**186**	**200**	**14**	**1,171**	**1,186**	**15**	**138**

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

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is slightly lower than the determination expected. The variance in the current year is the catalyst for the control period total variance. This arises from net deferrals of activity partly offset by higher underlying costs (notably in Track, Signalling, Civils and Electrification). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are lower than the regulator assumed this year, which partly offsets the higher investment witnessed earlier in the control period. This was due to higher underlying costs being offset by a deferral of activity. This control period, the higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is slightly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes delivered in the control period are lower than the regulatory assumption across all categories, with major contributions from Plain Line refurbishment, High Output, Switches & Crossings and Switches & Crossings refurbishment. Higher underlying costs this control period include extra High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around three-quarters of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered, notably Plain Line and investment in non-volume activities, including increases arising from implementing new contracting arrangements for control period 6.

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

In £m 2018-19 prices unless stated

(3) Signalling – expenditure this year was broadly in line with the determination expectation. However, total expenditure across the control period was lower than the determination expected. This was due to underlying costs being more expensive than the regulator assumed which was more than alleviated by deferral of programmes. The higher like-for-like costs arose from an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across the large signalling programmes has been lower than the regulator anticipated. This includes higher like-for-like costs more than offset by programme deferrals, notably Feltham works, Guildford and Wimbledon re-control schemes. Level crossings costs were lower across the control period than the regulator expected due to programme delays caused by a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. Lower investment in the Feltham scheme this year was more than offset elsewhere in the portfolio, including extra Minor works to maintain asset condition and performance.

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

In £m 2018-19 prices unless stated

(4) Civils – expenditure in the year was broadly in line with the regulatory anticipation. However, the story is one of higher underlying costs being partly offset by reduced activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). There were also additional costs arising from emergency repair works required in the wake of extreme weather damaging the network (including landslips). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is higher than the previous year with more work undertaken on Earthworks, including projects at Hook Cutting, Beaulieu Road Embankment and emergency works on Withy Beds.

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

In £m 2018-19 prices unless stated

(5) Buildings – expenditure in the year was lower than the regulator anticipated, mostly due to less spend on the Franchised station estate. There have been higher underlying costs this year. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result, Buildings financial underperformance has been recognised both in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure in the control period was lower than the regulatory target. Again, this was due to a combination of higher underlying project costs being mitigated by deferral of activity.

(6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year which has bought the total expenditure across the control period in line with the regulatory expectation. However, this is due to additional like-for-like costs offset by deferral of activity. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure this year is higher than the previous year which includes works on the Whitley and Camberley Substation.

(7) Telecoms – expenditure across the control period was lower than the determination envisaged. There has been noticeable contribution from SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. There has been an overspend in the control period on Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference.

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

In £m 2018-19 prices unless stated

(8) Wheeled plant and machinery – expenditure across the control period was lower than the regulator assumed. This is most evident in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination across the control period have been included as financial outperformance (refer to Statement 5).

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Property – costs are lower than the regulator's assumption across the control period mainly due to lower investment in corporate offices and maintenance depots. The reduced investment in corporate offices is mainly due to relocating the route headquarters from London to Basingstoke at the end of the previous control period.

(11) Other renewals includes the following notable items:

a. Intelligent infrastructure – expenditure across the control period is higher than the regulator assumed due to delays in implementation. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

b. Faster isolations – expenditure across the control period was higher than the regulator assumed. Compared to the determination expectation, more of the Faster isolation was undertaken in the Wessex route than expected. The allocation of the determination baselines to the different operational routes in England & Wales was performed on a high-level assumption. Actual expenditure has been different to this, with most other routes investing less than the regulator anticipated. There has been investment this year in schemes in the Bournemouth and acceleration of activity from control period 6.

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

In £m 2018-19 prices unless stated

c. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

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. No actual expenditure has been reported against this category.

e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Most of the projects have now substantially completed so there is minimal expenditure in the current year. In the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

f. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, Wessex

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	PR13	Difference	Actual	PR13	Difference
Track						
Conventional plain line renewal	14	22	8	114	132	18
High output renewal	1	8	7	45	28	(17)
Plain line refurbishment	7	1	(6)	28	5	(23)
S&C renewal	4	4	-	68	58	(10)
S&C refurbishment	2	4	2	19	20	1
Track non-volume	1	4	3	3	25	22
Off track	7	7	-	43	37	(6)
Total track	**36**	**50**	**14**	**320**	**305**	**(15)**
Signalling						
Full conventional resignalling	14	4	(10)	103	92	(11)
Modular resignalling	-	-	-	1	2	1
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	4	4	1	54	53
Targeted component renewal	-	2	2	-	7	7
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	3	-	(3)	3	-	(3)
Operating strategy other capital expenditure	3	-	(3)	16	23	7
Level crossings	2	19	17	23	73	50
Minor works	9	7	(2)	45	42	(3)
Centrally managed costs	3	2	(1)	6	9	3
Other	-	-	-	-	-	-
Total signalling	**34**	**38**	**4**	**198**	**302**	**104**
Civils						
Underbridges	7	15	8	85	79	(6)
Overbridges	3	2	(1)	9	6	(3)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	1	-	(1)
Tunnels	-	2	2	5	10	5
Other assets	1	3	2	16	15	(1)
Structures other	3	2	(1)	17	23	6
Earthworks	12	5	(7)	53	33	(20)
Other	-	-	-	-	-	-
Total civils	**26**	**29**	**3**	**186**	**166**	**(20)**
Buildings						
Managed stations	1	1	-	4	19	15
Franchised stations	3	9	6	58	67	9
Light maint depots	1	-	(1)	15	2	(13)
Depot plant	-	-	-	1	-	(1)
Lineside buildings	-	1	1	7	3	(4)
MDU buildings	1	-	(1)	2	2	-
NDS depots	-	1	1	2	3	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**6**	**12**	**6**	**89**	**96**	**7**

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

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	10	5	(5)	53	44	(9)
Conductor rail	4	4	-	21	19	(2)
SCADA	3	2	(1)	9	11	2
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	3	3	3	18	15
Other electrical power	3	1	(2)	10	6	(4)
Fixed plant	8	1	(7)	20	19	(1)
Total electrical power and plant	**28**	**16**	**(12)**	**116**	**117**	**1**
	-					
Telecoms						
Operational communications	-	3	3	-	4	4
Network	1	2	1	1	7	6
SISS	5	4	(1)	6	22	16
Projects and other	-	-	-	1	2	1
Non-route capital expenditure	3	1	(2)	17	4	(13)
Total telecoms	**9**	**10**	**1**	**25**	**39**	**14**
Wheeled plant and machinery						
High output	2	1	(1)	11	12	1
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	1	2	1
Intervention	1	-	(1)	7	13	6
Materials delivery	-	-	-	5	1	(4)
On track plant	2	2	-	5	8	3
Seasonal	-	1	1	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	1	-	(1)	1	3	2
Road vehicles	-	2	2	2	11	9
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	**6**	**6**	**-**	**33**	**55**	**22**
Information Technology						
IM delivered renewals	8	6	(2)	45	36	(9)
Traffic management	-	1	1	2	5	3
Total information technology	**8**	**7**	**(1)**	**47**	**41**	**(6)**
Property						
MDUs/offices	-	2	2	2	12	10
Commercial estate	-	-	-	1	5	4
Corporate services	-	-	-	-	-	-
Total property	**-**	**2**	**2**	**3**	**17**	**14**
Other renewals						
Asset information strategy	2	1	(1)	17	18	1
Intelligent infrastructure	2	2	-	5	9	4
Faster isolations	25	3	(22)	47	18	(29)
LOWS	1	-	(1)	1	1	-
Small plant	2	1	(1)	3	5	2
Research and development	1	-	(1)	2	-	(2)
Phasing overlay	-	23	23	-	(3)	(3)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	79	-	(79)
Other	(1)	-	1	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	**33**	**30**	**(3)**	**154**	**48**	**(106)**
Total renewals	**186**	**200**	**14**	**1,171**	**1,186**	**15**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Wessex – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wessex

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	40	18	(22)	124	87	(37)	20
Access charge supplement Income	(15)	(15)	-	(87)	(87)	-	(21)
Net (income)/cost	**25**	**3**	**(22)**	**37**	**-**	**(37)**	**(1)**
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	69	-	(69)	202	1	(201)	56
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**69**	**-**	**(69)**	**202**	**1**	**(201)**	**56**

B) Opex memorandum account	2018-19	Cumulative	2017-18
Volume incentive	(22)	(26)	(4)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(2)	(6)	(1)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	1	(1)
Reporters fees	-	(2)	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	**(24)**	**(35)**	**(6)**

D) Net income / (costs) from alliances:	2018-19	Cumulative	2017-18
Payment from South West Trains	-	2	-
Total alliance income	**-**	**2**	**-**
Payment to South West Trains	-	(2)	-
Total alliance costs	**-**	**(2)**	**-**
Net alliance income / (cost)	**-**	**-**	**-**

Statement 10: Other information, Wessex – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Wessex – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like costs, as shown in Statement 5a, which has been partly offset by deferrals of renewals activity which require possessions. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption with the current year accounting for around half of the variance. The trend over the control period has been for fewer possessions but with higher like-for-like costs. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Electrification & fixed plant) and, more significantly, the impact of the delays to the May timetable publication. These factors have been offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular had a material impact upon costs.

Statement 10: Other information, Wessex – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year, reflecting that the regulatory thresholds get tighter every year, meaning Network Rail has to improve just to stand still. In addition, network trespass has been more disruptive this year in Wessex. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Passenger traffic growth has not kept pace with the regulatory expectation (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6.

Statement 11:

There is no Statement 11 required for Wessex

Statement 12: Volume incentives, Wessex

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(7)	(1)	27	28	0.7%	1.61	pence per passenger train mile
Passenger farebox (millions)	(16)	(4)	1,139	1,228	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	0	1	1	2.4%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	705	765	3.4%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(26)**	**(5)**					

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

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator’s determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator’s targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year’s Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail’s financial outperformance for the year (refer to Statement 5) and is mainly the result of slower growth on industry Farebox, reflecting the revenue generated from passengers. Whilst Farebox income has increased substantially over the control period it has not quite matched the 15 per cent growth (in real terms) assumed by the regulator.

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

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	26	15	22	31	710	22	11	52	52	1,000
	High Output Renewal	km	-	-	-	-	-	-	-	-	-	-
	Plain line Refurbishment	km	6	1	2	12	167	6	2	2	6	333
	S&C Renewal/Refurbishment	point ends	15	2	2	15	133	36	10	13	59	220
	Track Drainage	lm	28,499	2	5	56,044	0	27,948	3	3	27,948	0
	Fencing	km	11	1	1	11	91	-	-	1	10	100
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	50	1	1	50	20	51	1	1	51	20
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**22**	**33**	**-**	**-**	**-**	**27**	**72**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	1	1	3	1	3,000
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**-**	**-**	**-**	**-**	**1**	**3**	**-**	**-**
Civils	Underbridges	m^2	872	6	13	1,212	11	1,838	6	20	4,420	5
	Overbridges (incl BG3)	m^2	640	3	4	1,025	4	-	-	-	-	-
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	325	-	1	650	2	325	-	1	975	1
	Culverts	m^2	-	-	-	-	-	351	-	-	351	-
	Footbridges	m^2	45	-	1	107	9	140	-	1	185	5
	Coastal & Estuarial Defences	m	-	-	-	-	-	456	1	2	1,700	1
	Retaining Walls	m^2	-	-	-	-	-	-	-	-	-	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	259	8	12	416	29	227	5	9	419	21
	EW Drainage	m	1,064	-	-	2,230	-	1,656	-	-	3,310	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**17**	**31**	**-**	**-**	**-**	**12**	**33**	**-**	**-**
Buildings	Buildings (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Platforms (FS)	m^2	-	-	-	-	-	2,835	1	2	4,635	0
	Canopies (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	-	-	-	-	-
	Light Maintenance Depots	m^2	-	-	-	-	-	-	-	-	-	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m^2	(550)	-	-	-	-	550	-	-	550	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**-**	**-**	**-**	**-**	**1**	**2**	**-**	**-**

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

In £m 2018-19 prices unless stated

Asset	Activity type	Unit	FY19 Volume unit	FY19 Cost £m	FY19 Full Project A Total AFC £m	FY19 Full Project B Total AFV unit	FY19 Full Project $C = A \div B$ Unit Cost £k/unit	FY18 Volume unit	FY18 Cost £m	FY18 Full Project A Total AFC £m	FY18 Full Project B Total AFV unit	FY18 Full Project $C = A \div B$ Unit Cost £k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	38	3	19	102	186	29	4	20	103	194
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	5	2	6	15	400	10	1	6	15	400
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	22	3	20	84	238	14	2	19	78	244
	Transformer Rectifiers DC		1	-	-	1	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	22	-	2	64	31
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	24	2	2	24	83	8	1	1	14	71
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**10**	**47**	**-**	**-**	**-**	**8**	**48**	**-**	**-**
Telecoms	Customer Information Systems	No.	111	5	8	126	63	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**111**	**5**	**8**	**126**	**-**	**-**	**-**	**-**	**-**	**-**

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

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There was a noticeable decrease in the unit cost for conventional plain line renewal and plain line refurbishment. This is due to the difference mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate, especially when the sample size is small.

(3) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been an increase in the unit cost of footbridges but there were only two projects that spanned both years, so the sample size is too small to make any useful comparisons. There has been an increase in the unit cost of underbridges due to the fact that there has been a higher proportion of replacement renewal in the year.

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

In £m 2018-19 prices unless stated

(4) Electrical Power and Fixed Plant – There was an increase in the unit cost of signalling power cables. However, there was only one project in each year, so the sample size is too small to do any meaningful analysis.

Statement 1: Summary regulatory financial performance, Western

In £m 2018-19 prices unless stated

	2018-19			Cumulative			2017-18
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Income							
Grant Income	414	417	(3)	2,219	2,214	5	457
Fixed Income	80	80	-	224	221	3	39
Variable Income	133	153	(20)	545	575	(30)	109
Other Single Till Income	378	199	179	895	835	60	196
Opex memorandum account	(4)	-	(4)	4	-	4	1
Total Income	**1,001**	**849**	**152**	**3,887**	**3,845**	**42**	**802**
Operating expenditure							
Network operations	57	35	(22)	237	181	(56)	47
Support costs	49	41	(8)	203	223	20	53
Traction electricity, industry costs and rates	69	75	6	211	222	11	47
Network maintenance	148	116	(32)	693	601	(92)	142
Schedule 4	40	23	(17)	145	114	(31)	23
Schedule 8	37	-	(37)	127	1	(126)	35
Total operating expenditure	**400**	**290**	**(110)**	**1,616**	**1,342**	**(274)**	**347**
Capital expenditure							
Renewals	356	270	(86)	1,611	1,590	(21)	291
PR13 enhancement expenditure	515	323	(192)	4,076	4,320	244	680
Non PR13 enhancement expenditure	100	-	(100)	276	-	(276)	73
Total capital expenditure	**971**	**593**	**(378)**	**5,963**	**5,910**	**(53)**	**1,044**
Other expenditure							
Financing costs	338	294	(44)	1,242	1,180	(62)	337
Corporation tax (received)/paid	-	-	-	(1)	-	1	-
Total other expenditure	**338**	**294**	**(44)**	**1,241**	**1,180**	**(61)**	**337**
Total expenditure	**1,709**	**1,177**	**(532)**	**8,820**	**8,432**	**(388)**	**1,728**

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2018-19 prices unless stated

Comments:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the total position for the control period unless otherwise stated. Greater detail and insight is provided in the other statements of this document.

(2) Income - Grant income variances to the determination arise from differences between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is lower than the previous year in line with the determination expectation, with a higher proportion of Network Rail's revenue requirement being met by operators through Fixed income. Grant income is discussed in more detail in Statement 6a.

(3) Income – Fixed income variances to the determination arise from differences between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income. Fixed income is discussed in more detail in Statement 6a.

(4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure) and running fewer train services. The control period is lower than the determination target for the same reasons. Income is higher than the previous year mainly due to higher electricity income as more of the route becomes electrified. These variances are set out in more detail in Statement 6a.

(5) Income – Other single till income in the year is noticeably higher than the determination assumption mainly due to proceeds from the asset divestment programme, including the well-publicised disposal of large parts of the commercial estate. These benefits also account for the higher income in the control period compared to the regulator's expectation and the improvement compared to the previous year as a result of this asset disposal. These variances are set out in more detail in Statement 6a.

(6) Income – Opex memorandum account – this includes amounts recognised under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This amount recognised this year is mainly due to lower traffic growth than the regulator expected. Losses recognised this year are higher than previous years as the industry growth has not matched the regulator's assumptions in the PR13 determination, which assumed a large increase in passenger traffic in 2018/19. The variances are set out in more detail in Statement 10.

(7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from, difficulties achieving efficiency targets set in the PR13, additional costs from extra industry timetabling capabilities and a larger managed station portfolio. Costs are higher in the control period for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

(8) Operating expenditure - Support costs are higher than the determination this year and, consequently, over the control period as a whole. This is mostly due to developing local and central capabilities ahead of achieving the regulator's CP6 targets. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2018-19 prices unless stated

(9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates. The net savings made in the control period are also due to these factors. Costs are higher than the previous year as a result of higher electricity costs as more of the Western route becomes electrified. These additional costs are recovered through higher variable income as noted above. Traction electricity, industry costs are discussed in more detail in Statement 7a.

(10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous years of the control period when efficiency targets set by the regulator have not been achieved. Also, higher civils inspections costs have contributed to the extra costs. The variances in the control period are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance and higher reactive maintenance works required. Costs are higher than the previous year as activities ramp up ahead of the challenges and expenditure expectation set out by the regulator for control period 6 in their recently-published determination. Maintenance costs are discussed in more detail in Statement 8a.

(11) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to higher average costs of possessions compared to the regulator's assumption. The well-publicised issues with implementing the May timetable has resulted in higher compensation costs for operators in order to book the possessions necessary to undertake Network Rail's renewal and maintenance programmes. Costs for the control period include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Signalling schemes) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular impacted costs. Schedule 4 costs are discussed in more detail in Statement 10.

(12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the entire control period. Increased network traffic, infrastructure failures, widely-publicised difficulties implementing the May timetable and impact of hot weather over the summer all contributed to this position. Costs in the control period are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.

(13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to higher underlying costs (notably in Track, Signalling and Electrification) partially offset by a net deferral of activity. Expenditure in the control period is higher than the determination which includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination) and is also due to higher underlying costs being partly mitigated by deferral of activities. Renewals are higher than the previous year as extra activity has been undertaken to counter some of the deferrals experienced earlier in the control period. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2018-19 prices unless stated

(14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes, but with notable contributions from Great Western electrification and Depots & Stabling fund. Expenditure is lower than the previous year, reflecting the timing of progress on different projects within the enhancement portfolio, with notable contributions from Great Western Electrification and Crossrail. These variances are set out in more detail in Statement 3.

(15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment so the higher investment in the current year and the control period is axiomatic. Notable schemes this control period include Crossrail related works, Swindon-Kemble line redoubling and Reading power improvements. These items are set out in more detail in Statement 3.

(16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs is the current year are higher than the determination expected due to higher levels of average debt in the year partly offset by lower effective interest rates, notably on accreting debt due to lower RPI than the regulator predicted. Costs in the control period are higher than the regulatory target mainly due to the same factors. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Western

In £m 2018-19 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2019

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	**7,727**	**7,274**	**453**
Indexation to 2017-18 prices	950	895	55
Opening RAB for the year (2017-18 prices)	**8,677**	**8,169**	**508**
Indexation for the year	277	261	16
Opening RAB (2018-19 prices)	**8,954**	**8,430**	**524**
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	312	270	42
PR13 enhancements	502	347	155
Non-PR13 enhancements	107	-	107
Total enhancements	609	347	262
Amortisation	(264)	(264)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2019	**9,611**	**8,783**	**828**

RAB Regulatory financial position - cumulative, Western

B) Calculation of the cumulative RAB at 31 March 2019

	2014-15	2015-16	2016-17	2017-18	2018-19	CP5 Total
Opening RAB (2018-19 prices)	**4,984**	**5,928**	**7,082**	**8,221**	**8,954**	**4,984**
Adjustments for the actual capital expenditure outturn in CP4	140	-	-	-	-	140
Renewals	347	265	259	246	312	1,429
PR13 enhancements	662	1,110	1,082	671	502	4,027
Non-PR13 enhancements	35	19	52	78	107	291
Total enhancements	697	1,129	1,134	749	609	4,318
Amortisation	(240)	(240)	(254)	(262)	(264)	(1,260)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-	-
Closing RAB	**5,928**	**7,082**	**8,221**	**8,954**	**9,611**	**9,611**

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

In £m 2018-19 prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP5.

Comments:

(1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in part B) of the statement, since the start of the control period.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (June 2017) the RAB is inflated each year using the in-year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent), the November 2016 RPI (2.19 per cent) and the November 2017 RPI (3.88 per cent) to derive the Opening RAB for the year in 2017/18 prices. This is then uplifted to 2018/19 prices using the November 2018 RPI of 3.19 per cent.

(3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is partly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, Network Rail has undertaken additional enhancement investment, including under the non-PR13 enhancement heading. The regulator's determination assumed no investment in this category would be undertaken.

(4) Renewals – renewals added to the RAB was higher than the regulator assumed this year. This was mostly due to higher levels of investment this year compared to the determination. The PR13 assumed that a higher proportion of renewals expenditure would have been undertaken in the early years of the control period. Instead, Network Rail has delivered renewals investment in a different profile. This change in investment profile more than offset the impact of efficient overspends, where the value of the expenditure cannot all be logged up to the RAB with Network Rail normally retaining 25 per cent of the overspend. The variances to the regulator's assumptions are set out in more detail in Statement 2b.

(5) PR13 enhancements – the amount added to the RAB this year was noticeably higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.

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

In £m 2018-19 prices unless stated

(6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for investment in such schemes when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category. Notable schemes delivered this control period include Crossrail related works, Swindon-Kemble line redoubling and Reading power improvements.

(7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (i.e. average long-run steady state renewals) subject to any financial sustainability considerations. As this is a hypothetical figure established at the start of the control period and inflated using the in-year November RPI, the actual value should always mirror the value in the PR13 assumption.

(8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to consider adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL), the regulator does not intend to make any adjustment the RAB for this in relation to the closing CP5 position at 31 March 2019.

(9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) the Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:

a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.

b. IOPI (Input Output Price Index) adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI and the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Western

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Renewals						
Renewals per the PR13 determination	**395**	**322**	**280**	**321**	**270**	**1,588**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	24	-	-	-	-	24
Capitalised financing on CP4 deferrals	1	1	1	2	1	6
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Adjusted PR13 determination (renewals)	**420**	**323**	**281**	**323**	**271**	**1,618**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(128)	(156)	(71)	(182)	(57)	(594)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(8)	(15)	(21)	(26)	(73)
Adjustments for efficient overspend	70	132	74	151	139	566
Capitalised financing on efficient overspend	2	5	10	16	23	56
25% retention of efficient overspend	(18)	(33)	(19)	(37)	(35)	(142)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(3)	(4)	(6)	(15)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	1	(1)	3	13
Capitalised financing on efficient overspend through spend to save framework	-	-	1	-	1	2
Retention of efficient overspend through spend to save framework	(1)	(1)	-	1	(1)	(2)
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	**347**	**265**	**259**	**246**	**312**	**1,429**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	2	3	5	8	7	25
Adjustment for 25% retention of efficient overspend	19	34	21	36	35	145
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Other adjustments	-	1	8	1	-	10
Total actual renewals expenditure (see statement 9)	**368**	**303**	**293**	**291**	**356**	**1,611**

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

In £m 2018-19 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	Total as at 31/03/19	CP5 Total
Enhancements						
Enhancements per the PR13 determination	**831**	**897**	**821**	**578**	**347**	**3,474**
Adjustments to the PR13 determination						
Renewals / enhancement reallocation	-	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-	-
CP4 deferrals to CP5	1	(1)	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-	-
Baseline adjustments	-	273	395	321	(23)	966
Capitalised financing on Baseline adjustments	-	6	21	37	45	109
Adjustments to DfT funding	(171)	-	-	-	-	(171)
Capitalised financing on adjustments to DfT funding	(3)	(7)	(7)	(8)	(9)	(34)
Other adjustments	28	27	-	-	-	55
Capitalised financing on other adjustments	1	2	2	2	3	10
Adjusted PR13 determination (enhancements)	**687**	**1,197**	**1,232**	**930**	**363**	**4,409**
Adjustments in accordance with the PR13 RAB roll forward policy						
Adjustments for acceleration / (deferral) of expenditure within CP5	(37)	(119)	(150)	(324)	32	(598)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(10)	(22)	(28)	(65)
Adjustments for efficient overspend / (underspend)	18	(27)	3	4	99	97
Capitalised financing on efficient overspend / (underspend)	1	-	-	-	2	3
25% retention of efficient overspend / (underspend)	(6)	6	(1)	-	(25)	(26)
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-	-	(1)	(1)
Adjustments for efficient underspend	-	-	-	-	-	-
Capitalised financing on efficient underspend	-	-	-	-	-	-
25% retention of efficient underspend	-	-	-	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	84	11	101	61	257
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(28)	(5)	(24)	(9)	(66)
Capitalised financing relating to projects with tailored protocols or fixed price	-	1	2	6	8	17
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-	-
Capitalised financing on efficient overspend through spend to save framwork retention	-	-	-	-	-	-
Other Adjustments	-	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	**662**	**1,110**	**1,082**	**671**	**502**	**4,027**
Non PR13 Enhancements						
Non-PR13 enhancements expenditure qualifying for capitalised financing	45	6	48	73	100	272
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(11)	11	-	(2)	(3)	(5)
Capitalised financing on non-PR13 enhancements expenditure	1	2	4	7	10	24
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)	**35**	**19**	**52**	**78**	**107**	**291**
Total enhancements (added to the RAB - see statement 2a)	**697**	**1,129**	**1,134**	**749**	**609**	**4,318**
Adjustment for manifestly inefficient overspend	-	-	-	-	-	-
Adjustment for capitalised financing	1	-	(9)	(22)	(30)	(60)
Adjustment for 25% retention of efficient overspend	18	8	5	26	36	93
Other Adjustments	3	-	-	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-	-	-
Non-PR13 enhancement expenditure						
Third party funded schemes	236	29	47	143	51	506
Other adjustments	-	(1)	(1)	-	-	(2)
Total actual enhancement expenditure (see statement 3)	**955**	**1,165**	**1,176**	**896**	**666**	**4,858**

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

In £m 2018-19 prices unless stated

Comments:

(1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.

(2) In accordance with the Regulatory Accounting Guidelines (June 2017), adjustments for capitalised financing are made against each category of this statement. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes adjustments for capitalised financing).

(3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of this control period and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.

(4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail delivered activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is lower than the regulator assumed on a like-for-like basis. As this statement shows, there is significant net deferral across the control period. This year, the level of deferral is lower than in previous year, arising from the lower values of expenditure envisaged by the regulator compared to the relatively high levels of investment undertaken this year by Network Rail.

(5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure with notable contributions from Track and Signalling projects. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.

(6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.

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

In £m 2018-19 prices unless stated

(7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (June 2017) provides specific rules about the type of expenditure which qualifies for this category, but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.

(8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. In line with the Regulatory Accounting guidelines (June 2017) there is no reduction made for investment in the final year of the control period to reflect the limited timescales to achieve any operational savings in CP5. The value in the current year represents a finalisation of the control period position now that the full level of overspend can be accurately calculated.

(9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the first year of the control period were reversed in the second year of the control period.

(10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Crossrail).

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

In £m 2018-19 prices unless stated

(11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.

(12) Enhancements – Other adjustments – the amounts in the opening two years of the control period reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme in Western.

(13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond following agreement from DfT.

(14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines June 2017) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure, with notable contributions from Great Western Electrification and Dr Days Junction to Filton Abbey Wood Capacity. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.

(15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.

(16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Crossrail programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

(17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Crossrail programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

(18) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Western

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	(1)	(1)	5	5	-
Stations - Access for All (AfA)	-	(2)	(2)	11	10	(1)
Development	-	1	1	14	15	1
Level crossing safety	1	(3)	(4)	11	11	-
Passenger journey improvement	-	1	1	1	1	-
The strategic rail freight network	4	(10)	(14)	32	36	4
Total funds	**5**	**(14)**	**(19)**	**74**	**78**	**4**
Committed projects						
Crossrail	82	69	(13)	1,500	1,488	(12)
GW Electrification (Paddington to Severn JT)	210	152	(58)	1,976	2,058	82
Adjustment for DfT funding - GW electrification	-	-	-	(82)	(82)	-
East West Rail (committed scheme)	-	5	5	49	25	(24)
IEP Programme	27	58	31	179	197	18
Bridgend to Swansea electrification	-	(7)	(7)	3	-	(3)
Reading station area redevelopment	18	(5)	(23)	133	169	36
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(91)	(91)	-
Total committed projects	**337**	**272**	**(65)**	**3,667**	**3,764**	**97**
Named schemes						
The Electric Spine:						
DfT SoFA amount	-	-	-	-	-	-
Total Electric Spine projects	**-**	**-**	**-**	**-**	**-**	**-**
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	-	-	-	4	2	(2)
Oxford Station area capacity and station enlargement	40	54	14	92	138	46
Total Thames Valley projects	**40**	**54**	**14**	**97**	**143**	**46**
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	8	9	1
Total airports & Ports	**-**	**-**	**-**	**8**	**9**	**1**
West						
Dr Days to Filton Abbey Wood capacity improvements	69	50	(19)	131	129	(2)
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	2	-	(2)	4	9	5
Total West	**71**	**50**	**(21)**	**135**	**138**	**3**
HLOS capacity metric schemes						
West of England DMU capability works	6	24	18	24	40	16
Route gauge Clearance for different EMUs	20	-	(20)	38	42	4
Total HLOS capacity metric schemes	**26**	**24**	**(2)**	**62**	**82**	**20**
CP4 Project Rollovers						
Westerleigh Junction - Barnt Green linespeed increase	-	(2)	(2)	-	5	5
Station Security	-	-	-	1	-	(1)
Other CP4 Rollover	2	-	(2)	2	-	(2)
Total CP4 rollovers	**2**	**(2)**	**(4)**	**3**	**5**	**2**

Statement 3: Analysis of enhancement capital expenditure, Western - continued

In £m 2018-19 prices unless stated

	2018-19			Cumulative		
	Actual	**Baseline**	**Difference**	**Actual**	**Baseline**	**Difference**
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	(22)	(22)	10	12	2
R&D allowance	-	-	-	2	2	-
Depots and stabling	33	(39)	(72)	71	64	(7)
Income generating property schemes	1	-	(1)	20	23	3
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	-	-	-	(73)	-	73
Total other projects	**34**	**(61)**	**(95)**	**30**	**101**	**71**
Re-profiled expenditure due to programme deferral	**-**	**-**	**-**	**-**	**-**	**-**
Total PR13 funded enhancements (see statement 2b)	**515**	**323**	**(192)**	**4,076**	**4,320**	**244**
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	26	-	(26)
DNOs clearance work	(8)	-	8	10	-	(10)
W001cReadingIndFeeder	20	-	(20)	75	-	(75)
Crossrail	44	-	(44)	54	-	(54)
Other government sponsored schemes	42	-	(42)	102	-	(102)
Total Government sponsored schemes	**98**	**-**	**(98)**	**267**	**-**	**(267)**
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	**-**	**-**	**-**	**3**	**-**	**(3)**
Total Schemes promoted by third parties	**-**	**-**	**-**	**1**	**-**	**(1)**
Discretionary Investment	**2**	**-**	**(2)**	**5**	**-**	**(5)**
Total non PR13 enhancement expenditure	**100**	**-**	**(100)**	**276**	**-**	**(276)**
Total Network Rail funded enhancements (see Statement 1)	**615**	**323**	**(292)**	**4,352**	**4,320**	**(32)**
Third Party PAYG	**51**	**-**	**(51)**	**506**	**-**	**(506)**
Total enhancements (see statement 2b)	**666**	**323**	**(343)**	**4,858**	**4,320**	**(538)**

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

In £m 2018-19 prices unless stated

Note:

(1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those with their own protocol (such as Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high-level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

Comments:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects which were included as outputs in the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.

(2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are logged up to the RAB in line with the ORR investment framework.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by Network Rail.

(4) Enhancement expenditure in the year paid for by Network Rail was £615m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£666m) less the PAYGO schemes funded by third parties (£51m).

(5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy review) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Overall, expenditure in this category this year was higher than the baseline which has brought the investment for the control period in total more into step with the Hendy assumption. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2018-19 prices unless stated

a. Station Improvement (NSIP) - this fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure across the control period is consistent with the Hendy baseline. There was limited investment in the current year as schemes in the programme had been delivered in earlier years of the control period instead.

b. Station Improvement (AFA) - this fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Investment in the control period has been higher than planned as additional schemes have been identified. Expenditure across the control period is consistent with the Hendy baseline. There was limited investment in the current year as schemes in the programme had been delivered in earlier years of the control period instead.

c. Development - this fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure across the control period is consistent with the Hendy baseline. There was limited investment in the current year as schemes in the programme had been delivered in earlier years of the control period instead.

d. Level Crossing Safety – the aim of this fund is to reduce the risks of accidents at level crossings. Expenditure across the control period is consistent with the Hendy baseline. There was limited investment in the current year as schemes in the programme had been delivered in earlier years of the control period instead.

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 is higher than the baseline in this year it remains lower across the control period in total. This year investment was mainly on gauge works on the Western Main Line.

(6) PR13 funded schemes – Committed Projects - overall expenditure for the year was higher than the baseline, reversing some of the underspend witnessed in earlier years of the control period. The notable variances between expenditure and the baseline are set out below:

a. Crossrail - this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Expenditure is higher than the regulator’s determination in the year and control period due to higher underlying costs of the work that has been completed which has resulted in financial underperformance (refer to Statement 5). This has been partly offset by reductions in the progress of the overall programme, such as Western stations works. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).

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

In £m 2018-19 prices unless stated

b. GW electrification - this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is higher than the baseline this year, which has reversed some of the underspend witnessed in earlier years of the control period. Across CP5, costs are lower than the Hendy baseline. This is mainly due to programme deferral which has been partly offset by financial underperformance (refer to Statement 5). Slower progress on the programme has been caused by a variety of factors, including: working around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery.

c. Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

d. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. There is minimal expenditure this year which has resulted in savings compared to the baseline, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2 which accounted for the extra spend earlier in the control period as did some of the financial underperformance reported (refer to Statement 5).

e. IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure in the year is lower than the baseline which has resulted in lower investment across the control period in total. Activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. This has been partly offset by higher programme costs which has resulted in the recognition of financial underperformance (refer to Statement 5).

f. Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Expenditure across the control period was lower than the Hendy baseline. This was mostly due to financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.

g. Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

(7) PR13 funded schemes – named schemes - expenditure in the year is higher less than the baseline but remains lower than the Hendy assumption for the control period mainly due to slower progress on the Oxford station area capacity scheme. The following notable variances between expenditure and baselines are set out below:

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

In £m 2018-19 prices unless stated

a. Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity this control period.

b. Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. Expenditure for the control period is largely in line with the Hendy target.

c. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.

d. Western access to London Heathrow Airport – this project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period is broadly in line with the agreed baseline.

e. Dr Days to Filton Abbey Wood Capacity Improvements - the project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure across the control period is consistent with the Hendy baseline. However, this is due to higher underlying costs being offset by reductions in scope. The higher underlying costs have resulted in financial underperformance (refer to Statement 5a).

f. Bristol Temple Meads Passenger Capacity – this project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period has been minimal as parts of this programme have been postponed until CP6.

(8) PR13 funded schemes – HLOS capacity metric schemes – although expenditure in the year is higher than the baseline, across the control period it is lower than the Hendy expectation. The following notable variances between expenditure and baselines are set out below:

a. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure across the control period is in lower than the Hendy baseline as some parts of the project have been deferred until CP6.

b. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure across the control period was lower than the Hendy baselines. The slight underspend compared to the baseline was mainly due to reduced output delivery and so is not eligible for inclusion as financial outperformance (refer to Statement 5).

(9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline this control period due to the receipt of a capital grant from DfT in 2017/18 which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:

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

In £m 2018-19 prices unless stated

a. ERTMS Cab Fitment – the objective of this fund is to facilitate the inclusion of migration to ETCS operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Some of the CP5 budget has been reallocated by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.

b. Depots & stabling fund - the objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure in the year is higher than the baseline which was adjusted this year through DfT's change control process. This included transferring responsibility for delivering schemes from Network Rail to operators. Across the control period investment is slightly higher than the Hendy baseline as opportunities was taken to deliver additional outputs this control period.

c. Income generating property schemes – the regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6a). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. There is minimal expenditure in the current year as most of the projects had been delivered earlier in the control period. Expenditure for the control period is slightly lower than the baseline as fewer schemes with appropriate business cases were identified.

d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by a corresponding amount (refer to Statement 2a).

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

a. Government sponsored – notable programmes in this category in the current year include Reading independent feeder (Bramley), a project which contributes to the electrification of the Western Main Line (WML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. There was also investment in schemes connected to the wider Crossrail project, including constructing additional access points to facilitate quicker and more effective maintenance to the infrastructure, as well as North Cotswold platform lengthening schemes so stations could accommodate longer trains to boost capacity.

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

In £m 2018-19 prices unless stated

b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

c. Discretionary investment – expenditure this year and across the control period relates to various programmes that Western contributed to this year to improve the railway network in the route. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

d. PAYGO – notable schemes delivered this year included work on the Old Oak Common depot to facilitate the High Speed 2 programme, work on the Western Rail Link to Heathrow project and a scheme to develop capacity on the Cornwall part of the network.

Statement 4: Net debt and financial ratios, Western

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2019

	2018-19			Cumulative		
(£m, nominal prices)	Actual	PR13	Difference	Actual	PR13	Difference
Opening net debt	**7,245**	**6,205**	**(1,040)**	**3,030**	**2,961**	**(69)**
Income						
Grant income	(414)	(417)	(3)	(2,093)	(2,090)	3
Fixed charges	(80)	(80)	-	(214)	(212)	2
Variable charges	(133)	(153)	(20)	(517)	(543)	(26)
Other single till income	(378)	(199)	179	(860)	(791)	69
Total income	**(1,005)**	**(849)**	**156**	**(3,684)**	**(3,636)**	**48**
Expenditure						
Network operations	57	35	(22)	227	169	(58)
Support costs	49	41	(8)	194	209	15
Traction electricity, industry costs and rates	69	75	6	202	207	5
Network maintenance	148	116	(32)	653	566	(87)
Schedule 4	40	23	(17)	137	108	(29)
Schedule 8	37	-	(37)	122	4	(118)
Renewals	356	270	(86)	1,521	1,495	(26)
PR13 enhancement	515	347	(168)	3,821	3,239	(582)
Non-PR13 enhancement	100	-	(100)	264	-	(264)
Total expenditure	**1,371**	**907**	**(464)**	**7,141**	**5,997**	**(1,144)**
Financing						
Interest expenditure on nominal debt - FIM covered	36	109	73	227	401	174
Interest expenditure on index linked debt - FIM covered	38	41	3	154	168	14
Expenditure on the FIM	39	67	28	190	268	78
Interest expenditure on government borrowing	154	-	(154)	357	-	(357)
Interest on cash balances held by Network Rail	(1)	(4)	(3)	(5)	(13)	(8)
Total interest costs	**266**	**213**	**(53)**	**923**	**824**	**(99)**
Accretion on index linked debt - FIM covered	72	81	9	272	356	84
Total financing costs	**338**	**294**	**(44)**	**1,195**	**1,180**	**(15)**
Corporation tax	-	-	-	(1)	-	1
Other	(222)	-	222	46	57	11
Movement in net debt	**482**	**352**	**(130)**	**4,697**	**3,598**	**(1,099)**
Closing net debt	**7,727**	**6,557**	**(1,170)**	**7,727**	**6,559**	**(1,168)**

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2018-19	2018-19 PR13
Adjusted interest cover ratio (AICR)	1.12	1.17	0.82	0.80	1.29	1.38
FFO/interest	2.95	2.94	2.65	1.90	2.29	2.62
Net debt/RAB (gearing)	71.8%	75.4%	79.6%	83.5%	80.4%	74.7%
FFO/debt	9.1%	7.7%	6.2%	6.1%	7.8%	8.5%
RCF/debt	6.1%	5.0%	3.3%	2.9%	4.4%	5.3%
Average interest costs by category of debt						
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	4.4%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	3.7%	n/a

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

In £m nominal unless otherwise stated

Note:

(1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in June 2017.

Comments:

(1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for 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 £0.5bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure, particularly enhancements. 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. Despite the high levels of investment this year, the increase in net debt was less than in previous years in control period 5. This was primarily due to the receipts from the asset divestment programme generated this year.

(3) Net debt attributable to Western at 31 March 2019 is £1.2bn higher than the regulator assumed. At the start of the control period Network Rail’s debt was higher than the regulator’s assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher net operating costs have driven increases in debt. These extra cash outflows have been partly mitigated by benefits from the asset divestment proceeds recognised this year.

(4) Income variances are shown in more detail in Statement 6a.

(5) Network operations variances are show in more detail in Statement 7a.

(6) Support costs variances are show in more detail in Statement 7a.

(7) Traction electricity, industry costs and rates variances are show in more detail in Statement 7a.

(8) Network maintenance expenditure variances are shown in more detail in Statement 8a.

(9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.

(10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or other agreed changes in funding.

(11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are made through DfT. This means that, ceteris paribus, Network Rail's financing costs are lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation which has been partly offset by lower effective interest rates. The higher interest across the control period is mainly due to higher average levels of net debt which has been partly mitigated by lower than expected inflation rates which has reduced Network Rail's accretion interest expenses.

a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period position.

b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period position too.

c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year, as legacy debt was repaid and replaced with direct borrowings from DfT.

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

In £m nominal unless otherwise stated

d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network.

e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources that the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.

f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB.

(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. This year, the high volume of investment compared to 2017/18, especially towards the end of the year has contributed to significantly higher creditors. The variance in the control period includes the repayment of Crossrail project funding made available during the course of construction, as well as working capital movements over CP5.

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

In £m nominal unless otherwise stated

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

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including an assumption for steady state renewals) to fund its cash interest expense. The ratio this year is close to the regulator's determination. However, this position is distorted by the revenue received from the asset divestment programme that occurred this year. Removing the impact of this, the ratio was around 0.6, some way below the regulatory assumption. This is mainly due to higher Schedule 8, Network operations and Maintenance costs and lower turnover as described elsewhere in these accounts. The decline in the underlying ratio compared to the previous year is mostly due to greater performance regime (Schedule 8 and Schedule 4) expenses and higher interest costs. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). As noted above, the change in Network Rail's financing arrangements this control period has resulted in a lower proportion of accreting debt instruments which adversely impacts this ratio.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

Statement 4: Net debt and financial ratios, Western – continued

In £m nominal unless otherwise stated

(18) Debt:RAB ratio – this ratio (sometimes referred to as "the gearing ratio" in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (i.e. debt) is worth comparatively less than its main asset (i.e. RAB). The ratio at the end of 2018/19 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net performance regime costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra performance regime costs experienced this control period are outlined in more detail in Statement 10. These factors are partly offset by lower interest costs (as noted above). Given the nature of Network Rail's business and its high level of capital investment in the current year the ratio would be expected to be higher than the previous year. However, the impact of the asset divestment programme has had a beneficial impact on the ratio as it has reduced net debt, but the regulator has made no corresponding write down to the value of the RAB. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for control period 5 and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring throughout the fiscal year.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. In the current year, the result was close to the regulatory assumption. However, removing the impact of asset divestment reduces the underlying result to around 5 per cent. This is lower than the regulatory expectation due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Western also has higher debt than the regulator assumed which is mainly due to additional capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4). The decline in the ratio this year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and performance regime costs (Schedule 8 and Schedule 4), which all get harder with each passing year.

(20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Western

In £m 2018-19 prices unless stated

				2018-19					
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income									
Grant Income	414	417	(3)		(3)	-	-	-	-
Fixed Income	80	80	-		-	-	-	-	-
Variable Income	101	114	(13)		-	-	-	(13)	(13)
Other Single Till Income	378	199	179		169	-	-	10	10
Opex memorandum account	(4)	-	(4)		5	-	-	(9)	(9)
Total Income	**969**	**810**	**159**		**171**	**-**	**-**	**(12)**	**(12)**
Expenditure									
Network operations	57	35	(22)		-	-	-	(22)	(22)
Support costs	49	41	(8)		-	-	-	(8)	(8)
Industry costs and rates	35	31	(4)		(5)	-	-	1	1
Traction electricity	2	5	3		-	-	-	3	3
Reporter's fees	-	-	-		-	-	-	-	-
Network maintenance	148	116	(32)		-	(6)	-	(26)	(26)
Schedule 4 costs	40	23	(17)		-	4	-	(21)	(21)
Schedule 8 costs	37	-	(37)		-	-	-	(37)	(37)
Renewals	356	270	(86)		-	54	-	(140)	(35)
PR13 Enhancements	515	323	(192)		-	(31)	-	(161)	(33)
Non PR13 Enhancements	100	-	(100)		-	(98)	-	(2)	(2)
Financing Costs	338	294	(44)		(44)	-	-	-	-
Compensation	-	-	-		-	-	-	-	-
Corporation tax	-	-	-		-	(1)	-	1	1
Total Expenditure	**1,677**	**1,138**	**(539)**		**(49)**	**(78)**	**-**	**(412)**	**(179)**
Total:			**(380)**		**122**	**(78)**	**-**	**(424)**	**(191)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters	**(191)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(20)
Under-delivery of train performance requirements (CaSL)	(3)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	-
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(23)**
Total financial out / (under) performance to be recognised	**(214)**

Statement 5a: Total financial performance, Western - continued

In £m 2018-19 prices unless stated

Cumulative

	Actual	**Adjusted PR13**	**Variance to adjusted PR13**	**Due to: Variance not included in total financial performance**	**Variances in volume of work**	**Other adjustments to PR13**	**Final Variance**	**Financial out / (under) performance**
	A	B	C Favourable / (Adverse)	D	E	F	$G = C - D - E - F$	$H = G$ or $H = G \times 25\%$
Income								
Grant Income	2,219	2,214	5	5	-	-	-	-
Fixed Income	224	221	3	3	-	-	-	-
Variable Income	502	519	(17)	-	-	-	(17)	(17)
Other Single Till Income	895	835	60	15	-	-	45	45
Opex memorandum account	4	-	4	11	-	-	(7)	(7)
Total Income	**3,844**	**3,789**	**55**	**34**	**-**	**-**	**21**	**21**
Expenditure								
Network operations	237	181	(56)	-	-	-	(56)	(56)
Support costs	203	223	20	28	-	-	(8)	(8)
Industry costs and rates	158	149	(9)	(12)	-	-	3	3
Traction electricity	9	16	7	-	-	-	7	7
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	693	601	(92)	-	(30)	-	(62)	(62)
Schedule 4 costs	145	114	(31)	-	23	-	(54)	(54)
Schedule 8 costs	127	1	(126)	-	-	-	(126)	(126)
Renewals	1,611	1,590	(21)	8	537	-	(566)	(141)
PR13 Enhancements	4,076	4,320	244	-	599	-	(355)	(87)
Non PR13 Enhancements	276	-	(276)	-	(272)	-	(4)	(4)
Financing Costs	1,242	1,180	(62)	(62)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	-	1	-	-	-	1	1
Total Expenditure	**8,777**	**8,376**	**(401)**	**(38)**	**857**	**-**	**(1,220)**	**(527)**
Total:			**(346)**	**(4)**	**857**	**-**	**(1,199)**	**(506)**

Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments	**(506)**
Less adjustments for under-delivery of outputs and reduced sustainability	
Under-delivery of train performance requirements (PPM)	(62)
Under-delivery of train performance requirements (CaSL)	(14)
Missed milestones for asset management - data quality	-
Missed milestones for Offering Rail Better Information Services (ORBIS)	(4)
Missed Enhancement milestones	-
Total adjustment for under-delivery outputs	**(80)**
Total financial out / (under) performance to be recognised	**(586)**

Statement 5a: Total financial performance, Western - continued

In £m 2018-19 prices unless stated

	2018-19			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	(32)	(39)	7	(43)	(56)	13
Total variance not included in total financial performance:	**(32)**	**(39)**	**7**	**(43)**	**(56)**	**13**
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Property Divestment	197	-	197	197	-	197
Adjustment for Crossrail finance charge	67	95	(28)	163	345	(182)
Total variance not included in total financial performance:	**264**	**95**	**169**	**360**	**345**	**15**
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	-	-	-	23	-	23
Spend to save adjustment	-	-	-	2	-	2
Release of CP4 long distance financial penalty provision	-	-	-	3	-	3
Total variance not included in total financial performance:	**-**	**-**	**-**	**28**	**-**	**28**
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	32	39	(7)	43	56	(13)
Total variance not included in total financial performance:	**32**	**39**	**(7)**	**43**	**56**	**(13)**
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	-	-	-	8	-	8
Total variance not included in total financial performance:	**-**	**-**	**-**	**8**	**-**	**8**

Statement 5a: Total financial performance, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) This statement measures Network Rail's financial performance during the current year and for the control period. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be derived but retains discretion on the final value.

(2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to assess financial performance.

(3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination, but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination due to re-phasing activity and so these variances should not be attributed to financial underperformance.

(4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

(1) Grant income – the variances that have arisen in both the current year and the control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

(2) Fixed income – the variances that have arisen this control period are due to differences in inflation assumptions (this is explained in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.

Statement 5a: Total financial performance, Western – continued

In £m 2018-19 prices unless stated

(3) Variable income – across the control period, Network Rail has run fewer trains than expected and so has achieved less Capacity charge income than the regulatory target. This is most noticeable in the current year when the regulator expected a significant increase in traffic in Western route. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities. Variable income is set out in more detail in Statement 6a.

(4) Other single till income – this year, financial outperformance has been reported. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. Most notably, the impact of disposing of large swathes of the commercial estate portfolio has been treated as neutral, which covers the net proceeds arising from the disposal. This sale was undertaken to finance Network Rail's ambitious enhancement programme in CP5. In addition, the PR13 assumed that Network Rail would receive income for Crossrail financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for this programme. However, this assumption did not fully materialise. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. The underperformance recognised in Other single till income this year is mainly due to higher underlying Property sales. There was also been a benefit from the transfer of Reading and Bristol stations. This has increased revenue Western have earned through its Managed Stations portfolio but reduced its turnover through its Franchised station estate. There have also been some additional Operational costs as a result of this transfer (included with the Operations financial performance assessment). Some additional Depot income has been generated this control period from extra services provided to operators. Other single till income is set out in more detail in Statement 6a.

(5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. This leaves penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period. Passenger growth over the control period has not kept pace with the regulatory expectation. This is most apparent in the current year, when the regulator anticipated an increase in passenger growth of over 9 per cent compared to the previous year. This in year variance has resulted in financial underperformance being reported for the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Western – continued

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(6) Network operations costs in 2018/19 are higher than the regulator assumed. The main reason for the increase is due to the transfer of responsibility for stations (Reading and Bristol). Whilst this results in supplementary income (as noted in the Other single till income comment above) and operational advantages, there are additional costs associated with the move. In addition, planned efficiencies arising from the Network Operation Strategy (NOS) have not materialised this control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above.

(7) Support costs – as with the previous year, Support costs are higher than the determination. The underperformance in the current year has resulted in underperformance reported for the control period as a whole. This includes additional costs incurred both locally and centrally as the organisation prepares for the challenges of CP6 as set out in the regulator's recently published determination. Support costs are discussed in more detail in Statement 7. In addition, an adjustment is made to the Support costs baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the earlier years of the control period not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a partial release of the provision. As Network Rail re-invested this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.

(8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target over the control period which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are reported within the Other single till income variance).

Statement 5a: Total financial performance, Western – continued

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(9) Network maintenance – the financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest that than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, apprentice levy and legal changes to overtime remuneration have contributed to a higher cost base. This year, costs are also higher as the organisation ramps up its capabilities and resource to meet the challenges set out in the recently-published regulator's determination for control period 6. Financial underperformance in the control period also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive pay-outs to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Western – continued

In £m 2018-19 prices unless stated

(10) Schedule 4 costs – this year costs are greater than the regulator expected which is mainly due to higher like-for-like costs. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Aside from the impact of the timetable delays, underlying costs were still higher than the regulator assumed. The determination assumed that the average cost of possessions would decrease as time went on. The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven’t been achieved. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Financial underperformance has been reported for the control period for the reasons noted above as well as because of adverse weather events, such as Storm Emma in 2017/18 and other one-off events, such as a derailment at Paddington. Variances in Schedule 4 arising from differences in the volumes of renewals undertaken are excluded when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).

Statement 5a: Total financial performance, Western – continued

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(11) Schedule 8 costs – costs are much greater than the determination due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. The well-publicised difficulties implementing the May timetable also contributed to the overall levels of disruption. Across the control period, the underperformance has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism) and performance issues with the new rolling stock introduced in the control period. Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(12) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track, civils and CP4 rollover projects), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates investment Network Rail has delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Western – continued

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(13)PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to allow them to make selections about the scope and cost of the projects as better information emerges. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Great Western Electrification and Crossrail. The control period position is largely dominated by these same programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

(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. 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 this control period are higher than the regulator expected mainly due to higher average net debt levels compared to the assumption in the regulators' PR13 partly offset by lower interest rates (notably inflation which impacts accreting debt). This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Western – continued

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Comments – Adjustments for missed regulatory outputs:

(1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets, but reductions are made for not achieving the targets. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

(2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2018/19, continuing the trend of the earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.

(3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2018/19, continuing the trend of earlier years of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.

(4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme resulting in financial underperformance being included this control period.

Statement 5b: Total financial performance - renewals variance analysis, Western

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(21)	51	(72)	(18)	-	(18)	-	-
Signalling	(45)	(17)	(28)	(7)	-	(7)	-	-
Civils	18	26	(8)	(2)	-	(2)	-	-
Buildings	2	2	-	-	-	-	-	-
Electrical power and fixed plant	(16)	8	(24)	(6)	-	(6)	-	-
Telecoms	(2)	(2)	-	-	-	-	-	-
Wheeled plant and machinery	(42)	(42)	-	-	-	-	-	-
IT	(3)	(3)	-	-	-	-	-	-
Property	(2)	2	(4)	(1)	-	(1)	-	-
Other renewals	25	29	(4)	(1)	-	(1)	-	-
Total	**(86)**	**54**	**(140)**	**(35)**	**-**	**(35)**	**-**	**-**

Cumulative

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	9	225	(216)	(54)	-	(54)	-	-
Signalling	(1)	187	(188)	(47)	-	(47)	-	-
Civils	8	104	(96)	(24)	-	(22)	(2)	-
Buildings	26	30	(4)	(1)	-	-	(1)	-
Electrical power and fixed plant	9	37	(28)	(7)	-	(8)	1	-
Telecoms	1	5	(4)	(1)	-	-	(1)	-
Wheeled plant and machinery	(16)	(16)	-	-	-	-	-	-
IT	(13)	(13)	-	-	-	-	-	-
Property	-	4	(4)	(1)	-	(1)	-	-
Other renewals	(44)	(18)	(26)	(6)	-	(4)	(2)	-
Total	**(21)**	**545**	**(566)**	**(141)**	**-**	**(136)**	**(5)**	**-**

Where: $C = A - B$

$D = C \times 25\%$

$D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.

(2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.

(3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

(1) Negative financial performance has been recognised in the current year across a number of asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets, continuing the trend from the previous years of the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery but has helped reduce disruption for passengers. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible.

Statement 5b: Total financial performance - renewals variance analysis, Western – continued

In £m 2018-19 prices unless stated

(2) Track – there has been notable financial underperformance in the current year some of which was foretold in Network Rail's CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Around one-third of the financial underperformance reported this control period as identified in the CP5 Business Plan. In addition, the experiences of the opening years of the control period suggested that it was improbable that the efficiencies assumed in the CP5 Business Plan could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The determination assumed that High Output unit costs would be around half the control period 4 exit rate by the end of control period 5. This was based on extrapolating potential savings following some trial runs towards the end of control period 4. This level of efficiency has proved unrealistic and has resulted in significant financial underperformance in this category across the control period. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions, particularly on the Crossrail and Great Western Electrification programme which is of significant strategic importance for the industry as a whole. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.

(3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy for this resource) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. This has included delivering signalling units with extra functionality, reflecting technological improvements and modern requirements. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost Swindon, Oxford and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, Western – continued

In £m 2018-19 prices unless stated

(4) Civils – as with the previous years of the control period, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events and other externalities damaging the network.

(5) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator’s determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising, notably in HV switchgear activities. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. Extra volumes have been required on certain projects which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, such as for Signalling power cable renewals. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

Statement 5b: Total financial performance - renewals variance analysis, Western – continued

In £m 2018-19 prices unless stated

(6) Other – this is made up of a number of different categories including the following:

a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year and across the control period as a whole.

b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year and the control period as a whole.

c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond have been funded through renewals for the last two years of the control period.

d. CP4 rollover: the regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. The underperformance recognised in the control period includes notable contributions from Paddington roof and FTN.

Statement 5c: Total financial performance - enhancement variance analysis, Western

In £m 2018-19 prices unless stated

2018-19

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	(58)	13	-	(71)	(18)
Reading station area redevelopment	(23)	(25)	-	2	2
Crossrail	(13)	48	-	(61)	(9)
East West Rail (committed scheme)	5	6	-	(1)	-
IEP Programme	31	33	-	(2)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	(19)	3	-	(22)	(6)
T12 Enhancements	(8)	-	-	(8)	(2)
Stations - Access for All (AfA)	(2)	-	-	(2)	(2)
Other Enhancements	(205)	(207)	-	2	1
Total	**(292)**	**(129)**	**-**	**(163)**	**(35)**

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	82	153	-	(71)	(18)
Reading station area redevelopment	36	3	-	33	8
Crossrail	(12)	245	-	(257)	(63)
East West Rail (committed scheme)	(24)	(18)	-	(6)	(2)
IEP Programme	18	31	-	(13)	(3)
Dr Days Jcn to Filton Abbey Wood Capacity	(2)	33	-	(35)	(9)
T12 Enhancements	(8)	-	-	(8)	(2)
Stations - Access for All (AfA)	(1)	1	-	(2)	(2)
Other Enhancements	(121)	(121)	-	-	-
Total	**(32)**	**327**	**-**	**(359)**	**(91)**

Statement 5c: Total financial performance - enhancement variance analysis, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination and so the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during their earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's incoming Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.

(2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in different circumstances.

(3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.

(4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period.

Comments:

(1) Great Western electrification – total programme costs are split between Western and Wales. These total programme costs have increased this year which has resulted in the recognition of financial underperformance. This includes extra contractor and access costs to meet the Transport for Wales direction to complete the Overhead Line Electrification improvements to the Cardiff area by November 2019. Additional access and blockade costs have to be paid to operators to obtain access required to complete Overhead Line Electrification for the Newbury to Reading section. Finally, there are extra access compensation costs required to undertake a three week blockade at Bristol Parkway to deliver the Overhead Line Electrification works to this station to meet timetable commitments (December 2018).

Statement 5c: Total financial performance - enhancement variance analysis, Western – continued

In £m 2018-19 prices unless stated

(2) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overheard Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.

(3) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the control period. The reason for the increased costs include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.

(4) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.

(5) IEP programme – the total expected costs for the programme are higher than the Hendy baseline which has resulted in recognition of financial underperformance. This has included additional costs to deliver capacity improvements at Bristol Parkway station, including additional works on embankments.

(6) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this control period resulting in the recognition of financial underperformance in the current year and control period. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.

(7) T-12 enhancements – this year the May timetable was published later than it should have been. These delays resulted in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows.

Statement 5c: Total financial performance - enhancement variance analysis, Western – continued

In £m 2018-19 prices unless stated

(8) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, Western

In £m 2018-19 prices unless stated

				Cumulative to 2018-19			
	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	133	139	(6)	-	-	-	(6)
Capacity charge	264	280	(16)	-	-	-	(16)
Electricity asset utilisation charge	1	3	(2)	-	-	-	(2)
Property income	158	129	29	-	-	-	29
Expenditure							
Network operations	237	172	(65)	-	-	-	(65)
Support costs	203	224	21	-	3	-	18
RSSB and BT Police	48	50	2	-	-	-	2
Network maintenance	693	592	(101)	(45)	-	-	(56)
Schedule 4 costs	145	142	(3)	51	-	-	(54)
Schedule 8 costs	127	-	(127)	-	-	-	(127)
Renewals	1,611	1,539	(72)	494	-	(425)	(141)
Total REBS performance			**(340)**	**500**	**3**	**(425)**	**(418)**

Less adjustments for under-delivery of outputs and reduced sustainability

Under-delivery of train performance requirements (PPM)	(62)
Under-delivery of train performance requirements (CaSL)	(14)
Missed milestones for asset management - data quality	-
Missed ORBIS milestones	(4)
Total adjustment for under delivery of outputs and reduced sustainability	**(80)**
Cumulative performance to end of 2018-19	**(498)**
Less cumulative outperformance recognised up to the end of 2017-18	(323)
Net REBS performance for 2018-19	**(175)**

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 2018-19 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 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Grant income	**414**	**417**	**(3)**	**2,219**	**2,214**	**5**	**457**
Franchised track access income							
Fixed charges	**80**	**80**	**-**	**224**	**221**	**3**	**39**
Variable charges							
Variable usage charge	20	23	(3)	105	107	(2)	21
Traction electricity charges	32	39	(7)	43	56	(13)	11
Electrification asset usage charge	1	2	(1)	1	3	(2)	-
Capacity charge	52	61	(9)	264	276	(12)	52
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	28	28	-	132	133	(1)	25
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	**133**	**153**	**(20)**	**545**	**575**	**(30)**	**109**
Total franchised track access income	**213**	**233**	**(20)**	**769**	**796**	**(27)**	**148**
Total franchised track access and grant income	**627**	**650**	**(23)**	**2,988**	**3,010**	**(22)**	**605**
Other single till income							
Property income	238	34	204	361	148	213	34
Freight income	6	8	(2)	28	37	(9)	5
Open access income	12	13	(1)	63	66	(3)	14
Stations income	29	25	4	143	125	18	29
Facility and financing charges	83	110	(27)	249	418	(169)	101
Depots Income	9	8	1	47	39	8	12
Other income	1	1	-	4	2	2	1
Total other single till income	**378**	**199**	**179**	**895**	**835**	**60**	**196**
Total income	**1,005**	**849**	**156**	**3,883**	**3,845**	**38**	**801**

Statement 6a: Analysis of income, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 10.

(3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.

(4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

(1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

(2) Overall, income is much higher than the regulator expected this year mainly as a result of additional property sales, primarily the divestment of a significant part of Network Rail's commercial property estate to fund its ambitious enhancements programme this control period. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). Removing the impact of this transaction, income is lower than the regulatory assumptions. This is due to a combination of: reduced Traction electricity income charged to operators (which is largely offset by lower costs Network Rail pays to purchase electricity), lower variable track income arising from running fewer train services than the regulator expected and lower financing charges income (offset by lower interest costs). Income for the control period is higher than the regulatory target due to the aforementioned proceeds from the divestment of a large section of Network Rail's commercial estate. Removing the impact of this single transaction, income was less than the regulator assumed due to the items noted above, namely lower traction electricity income, less variable income and lower financing income. Income is higher than the previous year mainly due to the aforementioned proceeds from property divestment. Excluding the impact of this, income is higher than 2017/18 with the largest contribution from the additional income earned from higher Traction electricity income.

Statement 6a: Analysis of income, Western – continued

In £m 2018-19 prices unless stated

(3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2018/19 being uplifted by 15.87 per cent but the actual revenue Network Rail receives from government increasing by only 15.27 per cent:

	Price uplift to apply (%)					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%	3.19%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%	15.87%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%	3.88%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%	15.27%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period is higher than the regulator assumed due to the inflation differences set out in the above table which meant higher income was received in the first three years of the control period which more than offset the lower grants received in the final two years. Grant income is lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

(4) Fixed charges – fixed charge income was slightly higher than the determination across the control period This is due to differences in the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment on Grant income. Fixed charges are higher than last year, but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue is lower than the determination expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Income was lower than the regulator expected this control period as a result of lower market prices. Income was higher than the previous year mostly due to increases in the level of electrified assets in the Western route and an increase in the rolling stock powered by electricity. This is largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a).

Statement 6a: Analysis of income, Western – continued

In £m 2018-19 prices unless stated

(6) Capacity charge – in the current year this is lower than the determination expected. Fewer trains were ran than the determination expected. Increases in traffic assumed by the regulator in the determination over the past 2 years did not materialise, which included the difficulties of implementing the ambitious May 2018 timetable and the Secretary of State's decision to reduce the risk of the November 2018 timetable introduction. The lower income this year continues the pattern of lower income experienced across the control period as the growth in services has been less than the regulator assumed. Income is consistent with the previous year.

(7) Property income – property income in the current year include the widely-reported divestment of large parts of the commercial estate, an element of which relates to Western route. This planned disposal of commercial units was required to help fund the enhancement programme delivered in CP5. In line with the Regulatory Accounting Policies (June 2017) no adjustment was made to the Regulatory Asset Base (RAB) set out in Statement 2a and no benefit has been recognised when assessing financial performance (refer to Statement 5). The magnitude of this single transaction makes comparisons with the determination or the previous year meaningless. Removing the impact of the asset divestment income, Property income has been higher than the determination target this year with additional property sales more than mitigating lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, drastically ahead of the rest of the market. Underlying Property sales income is higher than the regulator's determination this year. As noted in previous years' Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Income in the control period is ahead of the regulatory target due to the benefits of the disposing of the commercial estate. Excluding the distortive impact of this transaction, income is higher than the regulator assumed due to higher property rental income and extra revenue from business as usual property disposals. Income is higher than the previous year due to disposing of a significant section of the commercial estate. Excluding the impact of this single transaction, income was higher than the previous year due to some additional disposals being achieved this year.

(8) Freight Income – this is below the regulator's determination across the control period mainly due to lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently, the coal transportation market has declined dramatically with activity decreasing significantly compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance with international shipping has significantly decreased this control period.

(9) Stations income – revenue earned this year is higher than the regulator expected. This is mainly due to a transfer of Reading and Bristol stations from franchised to managed earlier in the control period, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). Across the control period, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations. Income is in step with the prior year.

Statement 6a: Analysis of income, Western – continued

In £m 2018-19 prices unless stated

(10) Facility and financing charges – income in this category is lower with the determination across the control period mostly due to lower Crossrail finance income. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. As noted in the previous year's Regulatory financial statements, in 2016/17 and 2017/18 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. Income this year is lower than the previous year as the income received finished during the year in line with the contractual arrangement.

(11) Depots income – revenue is higher than the regulator expected over the course of the control period. This is mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators facilitate the new Intercity Express Programme.

Statement 6b: Analysis of other single till income, Western

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Property Income							
Property rental	28	33	(5)	139	144	(5)	30
Property sales	210	3	207	222	16	206	4
Adjustment for commercial opex	-	(2)	2	-	(12)	12	-
Total property income	**238**	**34**	**204**	**361**	**148**	**213**	**34**
Freight income							
Freight variable usage charge	6	7	(1)	28	31	(3)	5
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	-	2	(2)	-
Freight only line charge	-	-	-	-	2	(2)	-
Freight specific charge	-	-	-	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	**6**	**8**	**(2)**	**28**	**37**	**(9)**	**5**
Open access income							
Variable usage charge income	-	-	-	-	1	(1)	-
Open access capacity charge	-	-	-	-	2	(2)	-
Open access traction electricity charges	3	4	(1)	14	16	(2)	4
Fixed contractual contribution	9	9	-	49	47	2	10
Open access other income	-	-	-	-	-	-	-
Total open access income	**12**	**13**	**(1)**	**63**	**66**	**(3)**	**14**
Stations income							
Managed stations income							
Long term charge	5	4	1	27	18	9	5
Qualifying expenditure	10	3	7	51	17	34	11
Total managed stations income	15	7	8	78	35	43	16
Franchised stations income							
Long term charge	10	11	(1)	47	56	(9)	9
Stations lease income	4	7	(3)	18	34	(16)	4
Total franchised stations income	14	18	(4)	65	90	(25)	13
Total stations income	**29**	**25**	**4**	**143**	**125**	**18**	**29**
Facility and financing charges							
Facility charges	16	15	1	86	73	13	15
Crossrail finance charge	67	95	(28)	163	345	(182)	86
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	**83**	**110**	**(27)**	**249**	**418**	**(169)**	**101**
			-				
Depots income	**9**	**8**	**1**	**47**	**39**	**8**	**12**
Other	**1**	**1**	**-**	**4**	**2**	**2**	**1**
Total other single till income	**378**	**199**	**179**	**895**	**835**	**60**	**196**

Statement 6b: Analysis of other single till income (unaudited), Western – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	19	18	(1)	99	94	(5)	20
Signalling shift managers	1	1	-	-	6	6	-
Local operations managers	1	1	-	4	7	3	2
Controllers	7	3	(4)	33	14	(19)	6
Electrical control room operators	2	1	(1)	4	5	1	1
Total signaller expenditure	**30**	**24**	**(6)**	**140**	**126**	**(14)**	**29**
Non-signaller expenditure							
Mobile operations managers	3	3	-	14	13	(1)	3
Managed stations	11	3	(8)	52	16	(36)	10
Performance	1	1	-	7	6	(1)	1
Customer relationship executives	1	1	-	4	3	(1)	1
Route enhancement managers	2	-	(2)	2	-	(2)	-
Weather	-	2	2	-	8	8	-
Other	8	1	(7)	32	5	(27)	6
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	3	2	(1)	4	12	8	-
Other operating income	(2)	(2)	-	(18)	(8)	10	(3)
Total non-signaller expenditure	**27**	**11**	**(16)**	**97**	**55**	**(42)**	**18**
Total network operations expenditure	**57**	**35**	**(22)**	**237**	**181**	**(56)**	**47**
Support costs							
Core support costs							
Human resources	2	4	2	12	25	13	3
Information management	5	5	-	31	29	(2)	6
Government and corporate affairs	1	2	1	5	8	3	1
Group strategy	1	1	-	3	6	3	1
Finance	3	2	(1)	12	12	-	2
Business services	2	2	-	8	8	-	3
Accommodation	8	5	(3)	38	27	(11)	8
Utilities	6	6	-	33	28	(5)	10
Insurance	2	6	4	22	31	9	5
Legal and inquiry	1	1	-	5	3	(2)	1
Safety and sustainable development	2	1	(1)	10	4	(6)	2
Strategic sourcing	1	1	-	5	4	(1)	1
Business change	-	-	-	-	1	1	-
Other corporate functions	11	-	(11)	38	1	(37)	8
Core support costs	**45**	**36**	**(9)**	**222**	**187**	**(35)**	**51**
Other support costs							
Asset management services	3	4	1	14	25	11	3
Network Rail telecoms	4	2	(2)	19	14	(5)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(12)	-	12	(2)
Commercial property	1	-	(1)	(2)	(2)	-	-
Group costs	(2)	(1)	1	(38)	(2)	36	(2)
Total other support costs	**4**	**5**	**1**	**(19)**	**36**	**55**	**2**
Total support costs	**49**	**41**	**(8)**	**203**	**223**	**20**	**53**
Traction electricity, industry costs and rates							
Traction electricity	34	44	10	52	72	20	12
Business rates	24	20	(4)	100	88	(12)	24
British transport police costs	8	9	1	43	47	4	8
RSSB costs	1	1	-	5	4	(1)	1
ORR licence fee and railway safety levy	2	1	(1)	9	9	-	2
Reporters fees	-	-	-	1	1	-	-
Other industry costs	-	-	-	1	1	-	-
Total traction electricity, industry costs and rates	**69**	**75**	**6**	**211**	**222**	**11**	**47**
Total network operations expenditure, support costs, traction electricity, industry costs and rates	**175**	**151**	**(24)**	**651**	**626**	**(25)**	**147**

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western – continued

In £m 2018-19 prices unless stated

Comments:

(1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.

(2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumption this year. Higher signaller costs and Support expenses have been partly offset by lower Traction electricity costs. The variance in the control period is similar to that experienced in the current year. Total costs are higher than the previous year as costs due to higher Operations and Traction electricity costs partly offset by Support costs savings.

(3) Network operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(4) Network operations costs in 2018/19 are higher than the regulator assumed. The main reason for the increase is due to the transfer of responsibility for stations (Reading and Bristol). Whilst this results in supplementary income (refer to Statement 6a) and operational advantages, there are additional costs associated with the move. In addition, planned efficiencies arising from the Network Operation Strategy (NOS) have not materialised this control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period are higher than the determination, mainly due to the factors outlined above. Costs this year are higher than the previous year, largely reflecting the expected operations costs that the regulator assumes Network Rail will have in 2019/20 as set out in their recently-published control period 6 determination.

(5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. As with the previous year, Support costs are higher than the regulatory target. Over the course of the control period there have substantial savings well in excess of the regulator’s targets.

(6) Human resources - costs are lower than the determination for the control period as a whole. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost-effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western – continued

In £m 2018-19 prices unless stated

(7) Government and corporate affairs – costs are lower than the determination across the control period. This has been achieved through a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public).

(8) Group strategy - expenditure is lower than the determination expectation across the control period which has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation.

(9) Accommodation – these property expenses were higher than the determination, continuing the trend of the earlier years of the control period. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be much lower than the CP4 exit position by 2018/19. Whilst there has been some savings, notable from corporate functions relocating to away from London to, for example, Milton Keynes.

(10)Utilities – costs were higher than the regulator expected across the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors.

(11)Insurance - costs are favourable to the determination this year and the control period as a whole. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. The current year also benefits from actuarial revaluation of liabilities which has reduced overall costs, As noted in the prior years' Regulatory Financial Statements, the control period position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. Costs are favourable compared with the previous year mainly due to the aforementioned gains made on actuarial valuations of older policies which have been partially offset by a slight increase in premium costs required under construction insurance arrangements.

(12) Safety and sustainable development - costs are higher than the determination across the control period due to enhanced focus on safety. In the determination some of these activities were included in the Asset management services category so these extra costs compared to the PR13 are partly funded by savings made in this area. The extra investment this control period includes delivery of the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western – continued

In £m 2018-19 prices unless stated

(13) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period. The Other corporate functions category mainly consists of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route-based support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result, there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year as routes increase the size and scope of their asset management and support teams ahead of the challenges set out in the regulator's determination for control period 6.

(14)Asset management services – costs are lower than the regulator assumed across the control period. This is partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.

(15)Telecoms – costs are higher than the regulator expected across the control period. This included the extra costs experienced this year along with some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible. The higher costs in the current year are due to a combination of not achieving the regulator's efficiency trajectory at the end of the control period, some additional investment to support new programmes ahead of control period 6 product development and improvements in the scope of the telecoms assets as well as an overall ramp up in resource ahead of the expectation included in the regulator's recently-published determination

(16)Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance reported this year is in line with the previous year.

(17)Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination this control period mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator assumed as well as lower financial penalties. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. Expenses for the control period also benefit from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5).

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western – continued

In £m 2018-19 prices unless stated

(18) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator’s assumption in the current year and control period mainly due to lower traction electricity costs partly offset by higher Business rates. Costs are higher than the previous year due as more of the Western network becomes electrified which is offset by higher income generated through charging operators for the electricity they use (refer to Statement 6a).

(19) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this this did not materialise. Costs are higher than the previous year as more parts of the Western network has become electrified as major enhancement schemes undertaken in Western yield results.

(20) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency which were higher than the regulator anticipated. These variances are not included as part of the assessment of Network Rail’s financial performance (refer to Statement 5). Costs for the control period are higher due to the new valuations which took effect in 2017/18 and so resulted in higher costs in the final two years of the control period. Costs are in line with the previous year following the Valuation Office Agency’s revaluation exercise.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Western

In £m 2018-19 prices unless stated

	2014-15	2015-16	2016-17	2017-18	2018-19
Network operations					
Operations and customer services signalling	18	21	20	22	21
MOMS	2	3	3	3	4
Control	6	7	6	6	7
Planning & Performance Staff Costs	3	5	6	7	7
Managed Stations Staff Costs	2	3	-	2	3
Operations Management Staff Costs	2	1	3	2	2
Other	8	6	8	5	13
Total operations & customer services costs	41	46	46	47	57
Total Network Operations	**41**	**46**	**46**	**47**	**57**
Support					
Human resources					
Functional support	-	1	-	3	2
Training (inc Westwood)	1	1	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	-	-	-
Other	1	-	1	-	-
Total human resources	3	3	1	3	2
Information management					
Support	1	-	1	1	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	6	6	6	5	4
Other	-	-	-	-	-
Total information management	7	6	7	6	5
Finance	2	3	2	2	3
Business Change	-	-	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	1	1	1	1	1
Planning & development	1	-	-	1	1
Safety & compliance	-	-	-	-	-
Other corporate services	3	1	2	6	1
Commercial property	8	6	5	8	9
Infrastructure Projects	(2)	(4)	(2)	(2)	(2)
Route Services	2	4	2	(1)	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	-	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	5	5	7	10	6
Network Rail Telecoms	4	5	3	3	4
Digital Railway	1	2	2	1	1
Safety Technical & Engineering	4	3	2	4	4
Government & Corporate Affairs	1	1	1	1	1
Business Services	1	-	2	3	2
Route Asset Management	2	2	1	3	6
Legal and inquiry	1	1	1	1	1
Group/central					
Pensions	-	-	-	-	-
Insurance	7	10	(1)	5	2
Redundancy/reorganisation costs	1	1	1	1	1
Staff incentives/Bonus Reduction	(2)	(1)	-	(1)	-
Accommodation & Support Recharges	(3)	(3)	(2)	(3)	(3)
Commercial claims settlements	-	(14)	(9)	-	-
ORR financial penalty	(3)	-	-	-	-
Other	-	(1)	-	1	-
Total group/central costs	-	(8)	(11)	3	-
Total support	**44**	**31**	**26**	**53**	**49**
Total network operations and support costs	**85**	**77**	**72**	**100**	**106**

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Western – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Western

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	51	41	(10)	233	211	(22)	51
Signalling	24	16	(8)	110	79	(31)	23
Civils	19	14	(5)	101	73	(28)	19
Buildings	11	6	(5)	43	32	(11)	10
Electrical power and fixed plant	10	19	9	34	97	63	10
Telecoms	4	2	(2)	15	12	(3)	5
Other network operations	27	12	(15)	149	64	(85)	24
Asset management services	3	4	1	18	18	-	3
National Delivery Service	-	4	4	(5)	22	27	(1)
Property	1	-	(1)	6	2	(4)	-
Group	(2)	(2)	-	(11)	(9)	2	(2)
Total maintenance expenditure	**148**	**116**	**(32)**	**693**	**601**	**(92)**	**142**

Statement 8a: Summary analysis of network maintenance expenditure, Western – continued

In £m 2018-19 prices unless stated

Note:

(1) These costs only include direct costs.

Comments:

(1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs this year are also higher as Network Rail increases its scope and functionality to help meet the challenges set out in the regulator's recently-published determination for control period 6. Costs for the control period are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting the aforementioned increase in resource required ahead of achieving the regulator's output and expenditure targets for control period 6.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of control period 4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost base across the control period. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. This has included additional investment in vegetation clearance programmes. The reasons outlined above also account for the higher costs in the control period. Costs in the year are consistent with the previous year.

Statement 8a: Summary analysis of network maintenance expenditure, Western – continued

In £m 2018-19 prices unless stated

(3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. Legislative changes around pensions, how overtime costs are reflected in holiday pay and apprentice levies have further increased the costs of employing staff. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.

(4) Civils – costs were higher than the determination mainly as a result of extra civils inspections. Costs have been higher than expected throughout the control period due to extra levels of work required to clear backlogs and contractor disputes and aggressive efficiency assumptions included in the regulator's control period 5 determination. The contractor disputes have emerged from differences between the assumed level of access that would have been available when the contracts were entered into at the start of the control period and the amount that has proved possible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. Costs are consistent with the previous year.

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, following the trend of the earlier years of the control period. Variances in this category are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Electrical power and fixed plant – costs for the current year are lower than the regulator assumed, continuing the trend of earlier in the control period. As part of the drive to electrify the Western route, there requires a new set of skills and resources to maintain the new assets, making sure they operate safely and effectively. However, building up this resource has been slower than expected. This is partly due to delays in the enhancement programme and a lack of appropriate resources in the market as well as delays in training. In addition, certain responsibilities are included in the Other network operations heading.

Statement 8a: Summary analysis of network maintenance expenditure, Western – continued

In £m 2018-19 prices unless stated

(7) Other network operations – costs for the current year are higher than the regulator's expectation, continuing the trend from earlier years of the control period. This includes a transfer of responsibilities from the Electrical power category as noted above as well as additional investment in performance and resilience projects. Costs across the control period also includes extra safety and performance improvement costs. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's Board took the decision to significantly reduce incentive payments to senior staff and instead re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category.

(8) National Delivery Services – as discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the control period represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period compared to the ORR determination.

(9) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is broadly in line with the determination this control period. This is despite a lower level of vehicle purchases this control period than the regulator expected. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). As the fleet ages this has resulted in some additional costs reported within Other network operations.

Statement 9a: Summary analysis of renewals expenditure, Western

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference	2017-18 Actual
Track	112	91	(21)	450	459	9	96
Signalling	94	49	(45)	503	502	(1)	104
Civils	40	58	18	279	287	8	40
Buildings	10	12	2	71	97	26	10
Electrical power and fixed plant	21	5	(16)	43	52	9	7
Telecoms	4	2	(2)	26	27	1	4
Wheeled plant and machinery	46	4	(42)	75	59	(16)	7
Information Technology	11	8	(3)	56	43	(13)	8
Property	4	2	(2)	11	11	-	1
Other renewals	14	39	25	97	53	(44)	14
Total renewals expenditure	**356**	**270**	**(86)**	**1,611**	**1,590**	**(21)**	**291**

Statement 9a: Summary analysis of renewals expenditure, Western – continued

In £m 2018-19 prices unless stated

Comments:

(1) Renewals expenditure for the year is higher than the determination expected. The extra spend this year is the catalyst for the higher investment in the control period as a whole. The higher investment is a combination of net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until future control periods in remain compliant with the funding restrictions imposed by government. As noted in the previous year's Regulatory financial statements, a number of renewals, especially non-core activities were paused in 2017/18 in light of funding pressures faced by the company. With a clearer business plan for 2018/19 additional funding was available to improve the railway and ramp up activity ahead of control period 6 to meet the higher regulatory investment targets.

(2) Track – costs are higher than the regulator assumed due to a higher underlying costs being partly offset by deferral of activity. The higher like-for-like costs are the result of higher CP4 exit rates and not achieving the efficiencies assumed in the regulator's determination. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the final years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. This control period the number of High output delivered volumes was only around one-quarter of that assumed in the determination. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment in the control period is broadly consistent with the regulator's assumed. However, this is due to deferral of activity to compensate for the higher like-for-like costs experienced. Volumes delivered in the control period are lower than the regulatory assumption across almost all categories, with major contributions from High Output, Switches & Crossings and Switches & Crossings refurbishment. Expenditure in the current year was higher than the previous year mainly due to increases in the volumes delivered and investment in non-volume activities. The volume increases were most evident in Switches & Crossings. This year also saw increases arising from implementing new contracting arrangements for control period 6.

Statement 9a: Summary analysis of renewals expenditure, Western – continued

In £m 2018-19 prices unless stated

(3) Signalling – expenditure was higher than the determination expected this year, mitigating the underspend that had occurred earlier in the control period. Underlying costs were greater than the regulator assumed which has been partly caused by an inability to achieve the efficiencies included by the regulator in the determination. The regulator assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure across large signalling programmes, such as programmes at Bristol, Oxford and Swindon, has been higher than the regulator anticipated. This has been funded through delays in the ERTMS schemes, notably Reading to Paddington works. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs to improve decision making, whilst increasing costs in other categories. Costs are slightly lower than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. Investment in Bristol area re-signalling was lower this year as the project moves towards the end of its lifecycle which has been partly offset by extra ERTMS investment.

(4) Civils – expenditure in the year was lower than the regulator anticipated. This is mostly due to deferral of activity which offsets higher underlying costs. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in the current year and in the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure for the control period is broadly in line with the determination which is due to higher underlying costs offset by deferrals in activity. The higher expenditure is due to a combination of beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). There have been extra costs incurred as a result of damage to the network from severe weather. Spend is in line with the previous year.

Statement 9a: Summary analysis of renewals expenditure, Western – continued

In £m 2018-19 prices unless stated

(5) Buildings – expenditure across the control period was lower than the regulator assumed as works were deferred into future years. Less has been invested in Depot plant and Franchised stations. This has been partly offset by extra investment in Buildings maintenance (as shown in Statement 8a). The appropriate asset management solution (maintenance or renewal) is not always known in advance and will depend on a case-by-case analysis of asset condition and requirement. None of the underspend compared to the determination has been recognised as financial outperformance (refer to Statement 5) as the lower spend was driven by deferring activity rather than delivering projects more economically across the portfolio.

(6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year partly reversing the trend of underspends from earlier years of the control period. Most of the spend in Western this control period is under the Fixed plant category, as there are currently limited electrification assets that require replacing. The delays in electrification enhancement schemes and changes in their scope have also impacted the level of renewals projects required this control period. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Despite the overall lower investment costs are higher on a like-for-like basis. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra scope has been required on certain projects which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year and the control period (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment is higher than the previous year mostly due to improvements to power supply infrastructure undertaken around the London Paddington station area this year.

(7) Telecoms – expenditure across the control period was broadly in line with the regulatory expectation. The largest area of overspend in the control period has been in Non-route capital expenditure. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertaken on FTN, GSMR and reducing cab radio interference. This has been offset by lower SISS (Station Information, Surveillance Systems). In earlier years of the control period upgrade programmes in these areas had been deprioritised and largely deferred to control period 6 to conserve funding for front line activity which, as shown in Statement 5, cost more on a like-for-like basis than the determination assumed across a range of activities.

(8) Wheeled plant and machinery – expenditure across the control period was higher than the regulator assumed due to extra investment in On track plant machinery to facilitate maintenance and renewal of new electrification assets. This was partly offset by a sizeable saving in Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which would result in higher Maintenance costs to cover the rental expenses. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. The funding constraints that Network Rail faced this control period has meant that some difficult decisions have been required to make sure that the funding available was used in an optimal manner. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery.

Statement 9a: Summary analysis of renewals expenditure, Western – continued

In £m 2018-19 prices unless stated

(9) Information technology – investment in the year is higher than the determination assumed, reflecting the trend over the whole of the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure this year was higher than the previous year. Uncertainty over the level of funding available for renewals, resulted in reductions in investment in non-core asset categories in 2017/18. With a clearer outlook in 2018/19, it was possible to make investments in IT competency ahead of the challenges of delivering the control period 6 regulatory settlement. Notable projects this year included an overhaul of internal management communication systems and data storage.

(10) Other renewals includes the following notable items:

a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator’s determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Delays at the end of control period 4 and contractor issues have led to slippage in the overall programme, with some work planned to conclude in control period 6. This programme elongation and the increase in the total expected programme costs have been reflected in the assessment of Network Rail’s financial performance (refer to Statement 5).

b. Intelligent infrastructure – expenditure is lower than the regulator assumed across the control period due to delays in implementation earlier in the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources. In addition, certain non-core renewals activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits, where, as Statement 5 shows, like-for-like costs were higher than the regulator expected. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring activity into the future rather than through an efficiency.

c. Research and development – research and development activity in the early years of the control period has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has had to be funded through renewals allowances in the final two years of the control period which accounts for the overspend compared to the determination. As there was no renewals funding in the determination this is included as underperformance when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

Statement 9a: Summary analysis of renewals expenditure, Western – continued

In £m 2018-19 prices unless stated

d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure has been reported against this category.

e. CP4 rollover - following the end of the previous control period (CP4), Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Across the control period, expenditure in some of these areas has been higher than the amount the regulator assumed, and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is negligible in the current year compared as most of the schemes that were rolled over from CP4 are now substantially completed.

f. Other – costs reported in the current year includes a share of the direct support costs to deliver the overall capital programme within the route. Costs in the control period include resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement. There is also a portfolio-wide reduction to Renewals this year to reduce the investment recognised this control period.

Statement 9b: Detailed analysis of renewals expenditure, Western

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Track						
Conventional plain line renewal	38	37	(1)	164	150	(14)
High output renewal	29	23	(6)	117	102	(15)
Plain line refurbishment	4	2	(2)	19	7	(12)
S&C renewal	25	11	(14)	81	88	7
S&C refurbishment	3	1	(2)	16	15	(1)
Track non-volume	1	5	4	5	32	27
Off track	12	12	-	48	65	17
Total track	**112**	**91**	**(21)**	**450**	**459**	**9**
Signalling						
Full conventional resignalling	4	-	(4)	4	18	14
Modular resignalling	-	2	2	-	4	4
ERTMS resignalling	15	29	14	43	111	68
Partial conventional resignalling	45	-	(45)	336	239	(97)
Targeted component renewal	-	1	1	-	23	23
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	14	3	(11)	39	18	(21)
Operating strategy other capital expenditure	1	-	(1)	10	10	-
Level crossings	4	5	1	24	29	5
Minor works	10	6	(4)	37	36	(1)
Centrally managed costs	1	3	2	10	14	4
Other	-	-	-	-	-	-
Total signalling	**94**	**49**	**(45)**	**503**	**502**	**(1)**
Civils						
Underbridges	15	32	17	77	125	48
Overbridges	5	5	-	26	20	(6)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	2	4	2
Tunnels	5	3	(2)	12	19	7
Other assets	2	2	-	41	16	(25)
Structures other	2	3	1	9	23	14
Earthworks	11	13	2	112	80	(32)
Other	-	-	-	-	-	-
Total civils	**40**	**58**	**18**	**279**	**287**	**8**
Buildings						
Managed stations	2	1	(1)	18	21	3
Franchised stations	3	7	4	30	49	19
Light maint depots	1	1	-	14	9	(5)
Depot plant	-	2	2	-	12	12
Lineside buildings	1	-	(1)	3	3	-
MDU buildings	3	1	(2)	6	3	(3)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	**10**	**12**	**2**	**71**	**97**	**26**

Statement 9b: Detailed analysis of renewals expenditure, Western - continued

In £m 2018-19 prices unless stated

	2018-19 Actual	2018-19 PR13	2018-19 Difference	Cumulative Actual	Cumulative PR13	Cumulative Difference
Electrical power and fixed plant						
AC distribution	11	-	(11)	11	-	(11)
Overhead Line	1	-	(1)	1	1	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	2	2	-	12	12
Fixed plant	9	3	(6)	31	39	8
Total electrical power and plant	**21**	**5**	**(16)**	**43**	**52**	**9**
Telecoms						
Operational communications	1	1	-	2	3	1
Network	-	1	1	1	4	3
SISS	-	-	-	4	11	7
Projects and other	-	-	-	-	3	3
Non-route capital expenditure	3	-	(3)	19	6	(13)
Total telecoms	**4**	**2**	**(2)**	**26**	**27**	**1**
Wheeled plant and machinery						
High output	2	-	(2)	13	13	-
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	1	3	2
Intervention	1	-	(1)	8	13	5
Materials delivery	-	-	-	4	1	(3)
On track plant	42	2	(40)	45	9	(36)
Seasonal	-	-	-	-	5	5
Locomotives	-	-	-	-	-	-
Fleet support plant	1	1	-	1	2	1
Road vehicles	-	1	1	2	12	10
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	**46**	**4**	**(42)**	**75**	**59**	**(16)**
Information Technology						
IM delivered renewals	11	7	(4)	54	38	(16)
Traffic management	-	1	1	2	5	3
Total information technology	**11**	**8**	**(3)**	**56**	**43**	**(13)**
Property						
MDUs/offices	3	1	(2)	5	8	3
Commercial estate	1	1	-	6	3	(3)
Corporate services	-	-	-	-	-	-
Total property	**4**	**2**	**(2)**	**11**	**11**	**-**
Other renewals						
Asset information strategy	2	1	(1)	18	19	1
Intelligent infrastructure	3	2	(1)	7	10	3
Faster isolations	6	4	(2)	19	19	-
LOWS	1	-	(1)	1	1	-
Small plant	3	1	(2)	4	6	2
Research and development	1	-	(1)	2	-	(2)
Phasing overlay	-	31	31	-	(2)	(2)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	40	-	(40)
Other	(2)	-	2	6	-	(6)
West Coast	-	-	-	-	-	-
Total other renewals	**14**	**39**	**25**	**97**	**53**	**(44)**
Total renewals	**356**	**270**	**(86)**	**1,611**	**1,590**	**(21)**

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Western – continued

In £m 2018-19 prices unless stated

Note:

(1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Western

In £m 2018-19 prices unless stated

A) Schedule 4 & 8 (income)/costs	**2018-19 Actual**	**2018-19 PR13**	**2018-19 Difference**	**Cumulative Actual**	**Cumulative PR13**	**Cumulative Difference**	**2017-18 Actual**
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	40	23	(17)	145	114	(31)	23
Access charge supplement Income	(28)	(28)	-	(132)	(133)	(1)	(25)
Net (income)/cost	**12**	**(5)**	**(17)**	**13**	**(19)**	**(32)**	**(2)**
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	37	-	(37)	127	1	(126)	35
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	**37**	**-**	**(37)**	**127**	**1**	**(126)**	**35**

B) Opex memorandum account	**2018-19**	**Cumulative**	**2017-18**
Volume incentive	(44)	(43)	(3)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	4	11	5
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	1	(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	**(39)**	**(32)**	**1**

Statement 10: Other information, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

(4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).

(5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.

(6) As part of the CP5 determination, the ORR expected that, subject to funding arrangements, amounts in the Opex memorandum at the end of the control period would result in additional/ reductions to grant income in control period 6. However, the regulator's CP6 final determination did not include any adjustment to revenue for opex memorandum items and so the amounts reported in section b) of this statement do not impact future revenue projections.

Statement 10: Other information, Western – continued

In £m 2018-19 prices unless stated

Comments:

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. This year, the performance element costs are greater than the regulator expected which is mainly due to higher like-for-like costs, as shown in Statement 5a. These higher costs were caused by a combination of costs arising from delays to timetable publication and higher underlying costs. The latter is in keeping with the trend of the earlier years of the control period. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The delays to timetable publication result in higher costs because under the schedule 4 regime, Network Rail receives discounts the earlier it books possessions. The May timetable was published later than it should have been. The May timetable witnessed a major increase in the number of services on the network. The interconnected nature of the railway and the services on it, means that changing timetables is a complicated process. Uncertainty over the delivery of scheduled enhancements programmes (and the benefit to journey time and capacity that this generates) compounded the problems. With no timetable in place, the necessary possessions required to undertake renewals and maintenance work could not be booked, preventing Network Rail benefitting from the discounts that early notification allows. Costs in the control period are higher than the regulatory assumption which is mainly due to higher like-for-like costs which have been partly offset by deferral of renewals activity and so a reduction in the number and duration of possessions required. The impact of adverse weather events in the control period and the aforementioned impact of timetable publication delays contributed to this like-for-like overspend. This is demonstrated through the schedule 4 financial underperformance reported for the control period, set out in Statement 5a. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Signalling schemes) and the impact of the delays to the May timetable publication offset by relatively benign weather this year compared to 2017/18, when Storm Emma in particular impacted costs.

Statement 10: Other information, Western – continued

In £m 2018-19 prices unless stated

(2) Schedule 8 costs are far greater than the determination assumed due to train performance falling significantly short of the regulators targets once again this year. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly because train performance at the end of CP4 was some way adrift of the regulator's assumption. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets unrealistic. However, Network Rail still fell short of its own targets for train performance this control period. Train performance is adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The impact of network congestion was not fully understood when the plans for CP5 was established. Also, the issue of network trespass remains a problem. Whilst improvements have been made, (including increased fencing and working with the Samaritans) such disruption affects performance significantly. Costs are broadly in line with the previous year. Compensation payable under the Schedule 8 regime was evidently higher than the regulator's assumption across the control period as train performance has not met the regulatory targets. This has been caused by a number of factors. There have been externalities, including the impact of weather events and network trespass, asset failures, ever-tightening benchmarks, increased numbers of TOC-on-TOC delays (which Network Rail have to pay for under the current mechanism). Train performance remains a substantial challenge for CP6 as the organisation strives to improve customer services.

(3) The opex memorandum is a regulatory tool to record specific funding shortfalls that can then be remunerated through a future control period determination. However, due to Network Rail being reclassified as a Central Government Body in the UK National Accounts and the direct control from DfT this engenders this will mechanism will not be used to calculate revenue requirements for control period 6, making the reporting of it academic. The opex memorandum for this control period is dominated by the impact of the Volume Incentive measure. Passenger traffic growth, and associated industry revenue, has not been as high as the regulator expected (refer to Statement 12). Consequently, by the time the control period has ended in 2018/19, there is a gap to the regulatory target which is included in the opex memorandum. The size of the gap reflects the hypothetical difference in the variable charge income that could be earned across control period 6. This impact of the Volume incentive is partly offset by higher than expected Business rates in CP5, especially in the last two years of the control period following the revaluation exercise undertaken during the control period (refer to Statement 7a).

Statement 11:

There is no Statement 11 required for Western

Statement 12: Volume incentives, Western

In £m 2018-19 prices unless stated

	Volume incentive cumulative to 2018-19	Contribution to volume incentive in year	Actual in year	2017-18 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(29)	(6)	27	28	9.4%	1.61	pence per passenger train mile
Passenger farebox (millions)	(13)	(3)	953	998	6.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	2	2	1.6%	3.26	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	2,765	2,680	1.9%	2.77	pence per freight 1,000 gross tonne mile
Total volume incentive	**(43)**	**(9)**					

The cumulative volume incentive is determined by the following calculation: $[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2018-19 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 2018-19 prices unless stated

Notes:

(1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).

(2) Similar incentive mechanisms operated in earlier control periods but for CP5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised. Under the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.

(3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.

(4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2018/19 by five. Network Rail does not feel that the performance compared to the volume incentive baselines in 2018/19 provides much insight to how it has performed throughout the control period as a whole. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).

(5) The volume incentive cumulative to 2018/19 displays the raw data rounded to the nearest million. Therefore, it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comment:

(1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result which compounds the underperformance in the control period reported in last year's Regulatory Financial Statements. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the passenger growth and revenue earned by the industry not keeping pace with the ambitious increases assumed in the determination. The determination assumed significant growth in traffic the current financial year which has proved to be unachievable. This included a 9.4 per cent increase in Passenger train miles and a 6.0 per cent rise in Passenger farebox.

Statement 14: Renewals volumes, unit costs and expenditure, Western

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit	**Volume** unit	**Cost** £m	**Total AFC** £m	**Total AFV** unit	**Unit Cost** £k/unit
Track	Conventional plain line Renewal	km	38	38	53	62	855	29	27	30	36	833
	High Output Renewal	km	24	21	32	30	1,067	30	42	59	45	1,311
	Plain line Refurbishment	km	60	4	6	112	54	66	3	6	110	55
	S&C Renewal/Refurbishment	point ends	84	23	30	127	236	54	9	20	146	137
	Track Drainage	lm	32,871	2	3	40,734	0	25,553	1	4	25,930	0
	Fencing	km	40	1	4	167	24	38	1	3	125	24
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	-	-	-	-	-	1	-	-	1	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**89**	**128**	**-**	**-**	**-**	**83**	**122**	**-**	**-**
Signalling	Full Conventional Resignalling	SEU	20	4	4	20	200	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	459	44	285	752	379	3	-	1	3	333
	Targeted Component Renewal	SEU	-	-	-	-	-	1	-	-	1	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	3	3	5	3	1,667	3	3	4	3	1,333
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**51**	**294**	**-**	**-**	**-**	**3**	**5**	**-**	**-**
Civils	Underbridges	m^2	4,385	11	31	7,022	4	1,952	5	28	4,057	7
	Overbridges (incl BG3)	m^2	3,171	1	12	3,274	4	210	1	8	727	11
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m^2	1,262	5	8	2,460	3	3,219	-	-	3,491	-
	Culverts	m^2	155	-	1	194	5	87	1	1	162	6
	Footbridges	m^2	238	1	1	238	4	-	-	-	-	-
	Coastal & Estuarial Defences	m	90	-	-	90	-	-	-	-	-	-
	Retaining Walls	m^2	375	-	1	535	2	160	1	1	220	5
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	319	4	8	1,055	8	322	8	25	947	26
	EW Drainage	m	25,822	1	2	28,184	0	33,517	1	1	34,099	0
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**23**	**64**	**-**	**-**	**-**	**17**	**64**	**-**	**-**
Buildings	Buildings (MS)	m^2	3,130	1	1	3,130	0	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m^2	-	-	-	-	-	9,508	-	-	9,508	-
	Buildings (FS)	m^2	-	-	-	-	-	1,624	-	-	2,700	-
	Platforms (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Canopies (FS)	m^2	-	-	-	-	-	(381)	1	1	(661)	(2)
	Train sheds (FS)	m^2	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m^2	64	-	1	64	16	60	-	2	60	33
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		27,500	2	3	28,660	0	1,067	-	7	29,150	0
	Light Maintenance Depots	m^2	5,286	1	1	5,286	0	12,947	6	9	12,947	1
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m^2	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**4**	**6**	**-**	**-**	**-**	**7**	**19**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

In £m 2018-19 prices unless stated

			FY19		Full Project			FY18		Full Project		
					A	B	$C = A \div B$			A	B	$C = A \div B$
Asset	**Activity type**	**Unit**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**	**Volume**	**Cost**	**Total AFC**	**Total AFV**	**Unit Cost**
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	112	-	2	136	15
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	5	-	-	5	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		10	-	1	33	30	27	-	-	27	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	3	-	1	8	125
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		**-**	**-**	**1**	**-**	**-**	**-**	**-**	**1**	**-**	**-**

Statement 14: Renewals volumes, unit costs and expenditure, Western – continued

In £m 2018-19 prices unless stated

Notes:

(1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2018/19 (or 2017/18 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2017/18 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2018/19, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.

(2) Track - There has been an increase in the unit cost of switches and crossings in the year. This was due to the fact that in the year there was more full renewal and less medium refurbishment compared to the prior year.

(3) Signalling – Level crossings are a bespoke job type with similarities between projects being random. The level of work required, and costs can vary depending on the type of level crossing as well as the possession charges which depend on track usage in that area. Therefore, the increase in unit cost from the prior year holds little information relating to over/under performance. The unit cost for targeted conventional re-signalling dramatically decreased in the year. However, there was only one project in the prior year which means that the sample size was too small to do any meaningful analysis. The unit cost for partial conventional re-signalling increased in the year. However, there was only one project in the prior year which means that the sample size was too small to do any meaningful analysis.

Statement 14: Renewals volumes, unit costs and expenditure, Western – continued

In £m 2018-19 prices unless stated

(4) Civils – In earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore, it is difficult to do any analysis on the category as a whole. There has been a decrease in the unit costs for underbridges due to the fact that the proportion of expensive replacement work has reduced. It is the same story but even more pronounced in the overbridge category.

(5) Buildings – In franchised stations footbridges there has been a decrease in the unit cost in the year. However, there was only one project in the year at Teignmouth Stations compared to two last year. As footbridges are bespoke and the sample size is so small it difficult to make any useful observations on the unit cost movements between the years.

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 the Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2019

In £m 2018/19 prices unless stated

	£m
RAB valuation at 31 March 2019 (Statement 2a)	71,959
Investment properties (including assets held for resale)	(242)
Adjustment for cash flow differences the CP6 Business Plan compared to Periodic Review 2018	(282)
Other	32
Property, plant and equipment per NRL statutory accounts at 31 March 2019	**71,467**

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2019

In £m 2018/19 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2019 per the regulatory Statements (Statement 1)	1,895	1,525	3,420
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets [(1)]	1,666		1,666
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	166		166
Network Rail (High Speed) Limited	(8)		(8)
Other	(1)		(1)
	1,823	-	1,823
Operating and maintenance expenditure for year ended 31 March 2019 per NRL statutory accounts	**3,718**	**1,525**	**5,243**

Notes:

[(1)] This includes depreciation expenses of £1,810m and capital grant amortisation of £144m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2019

In £m 2018/19 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2019 (Statement 6a)		8,837
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(654)	
Income from property sales and other asset divestments	(1,468)	
Network Rail (High Speed) Limited	(8)	
Opex memorandum timing difference	(34)	
Other	3	
		(2,161)
Turnover per NRL statutory accounts for year ended 31 March 2019		**6,676**

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2019

In nominal prices

	£m	£m
Regulatory debt at 31 March 2019 (Statement 4)		53,446
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	575	
Foreign exchange differences	116	
		691
Net debt per NRL statutory accounts at 31 March 2019		**54,137**

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2019

In £m 2018/19 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2019 (Statement 1)		6,246
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	637	
Capitalised interest	183	
Investment property schemes	(22)	
Other	(1)	
		797
Capital expenditure per NRL statutory accounts for the year ended 31 March 2019		**7,043**

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2019

In £m 2018/10 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2019 (Statement 1)		2,319
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(183)	
Net finance costs relating to defined pension schemes assets and liabilities	55	
Investment revenue disclosed separately in statutory accounts	11	
Other	(2)	
		(119)
Interest expense per NRL statutory accounts for the year ended 31 March 2019		**2,200**