

# CORPORATE GOVERNANCE

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# OUR BOARD OF DIRECTORS



**Sir Peter  
Hendy CBE**  
Chair

## Skills and experience

Sir Peter was commissioner of Transport for London (TfL) from 2006 to 2015. He led the successful operation of London's transport for the 2012 Olympic and Paralympic Games: his experience in leading urban transport in a world city is critical to chairing Network Rail. Sir Peter is a past international and UK president of the Chartered Institute of Logistics and Transport, is a fellow of the Chartered Institute of Highways and Transport, and of the Institution of Civil Engineers. He was knighted in the 2013 New Year's Honours List, having been made CBE in 2006 for services to public transport and the community in London.

## Current external appointments

Chair of London Legacy Development Corporation; trustee of the Science Museum Group; trustee and director of the London Transport Museum; chair of London Freight Enforcement Partnership; patron of the Independent Transport Commission; Network Rail representative at the Transport for the North; chair of the Euston Partnership Board; and honorary president of the London Bus Museum. He is currently reviewing the connectivity of the United Kingdom, reporting to the Prime Minister.

## Committee membership

Chair of the property supervisory committee; nomination and remuneration committee; safety, health and environmental compliance committee.

Appointed to the Board: **2015**



**Andrew  
Haines OBE**  
Chief executive

## Skills and experience

Andrew was previously chief executive officer of the Civil Aviation Authority from 2009-2018. Prior to that he had a wide-ranging career within the rail industry with British Rail, Railtrack, South West Trains and FirstGroup plc where he led the rail division in England, Scotland and Wales. In addition, he was a non-executive director at a rolling stock leasing company.

Andrew was awarded an OBE in the 2016 New Year Honour's list for services to transport and is a fellow of the Chartered Institute of Logistics and Transport, the Royal Aeronautical Society, the Institute of Railway Operators and the Permanent Way Institute.

Appointed to the Board: **2018**



**Jeremy  
Westlake**  
Chief financial  
officer

## Skills and experience

Jeremy was formerly senior vice president for finance at Alstom Transport in France, responsible for financial performance and control, project finance and investor management. Prior to this he spent 14 years at Rolls-Royce in a range of senior finance and supply chain roles both in the UK and the United States.

Jeremy is a fellow of the Institute of Chartered Accountants in England and Wales and has a Master's in manufacturing from the University of Cambridge.

## Current external appointments

Non-executive director of Elevate Services Inc., providing technology and services to law firms and law departments.

## Committee membership

Property supervisory committee

Appointed to the Board: **2016**



## Ismail Amla

Non-executive director

### Skills and experience

Ismail has extensive international experience helping leading brands and disruptive start-ups leverage emerging technologies.

He is the chief growth officer at Capita where he is responsible for driving sales, the brand position and marketing, and Capita's strategy for key clients.

Prior to this, Ismail was the managing partner in IBM, leading the North American Services business; chief executive officer for the consulting firm Capco in North America; and on the leadership team for Accenture in the UK.

### Current external appointments

Chief growth officer at Capita; a board member at UK Sports; a member of the board of governors at University of East London.

### Committee membership

Nomination and remuneration committee.

Appointed to the Board: **1 April 2021**



## Mark Bayley CBE

Non-executive director

### Skills and experience

Mark has spent much of his career in the rail sector. He was chief executive of London & Continental Railways Limited, and chief executive of the Green Deal Finance Company (GDFC). His interim work includes commercial director of High Speed 2 Ltd, and chief financial officer and board director of the Submarine Delivery Agency at the Ministry of Defence.

Mark was awarded a CBE in 2012 for services to the rail industry.

### Current external appointments

Non-executive director of Ofwat; non-executive director of UK Atomic Energy Authority; a member of the DfT's Group Audit and Risk Assurance Committee.

### Committee membership

Chair of the audit and risk committee; chair of the treasury committee; property supervisory committee.

Appointed to the Board: **2020**



## Rob Brighthouse

Senior independent non-executive director

### Skills and experience

Rob has 40-years' experience in the rail industry and was previously the managing director of Chiltern Railways. He first joined the rail operator in 2000 as projects director, where he led the Evergreen 1 and 2 infrastructure projects as well as the building of Chiltern's Wembley depot.

Rob is a fellow of the Institution of Civil Engineers and the Institute of Directors, and is a chartered director. Rob holds an MBA from Aston Business School.

### Current external appointments

A member of the Advisory Board at Aston Business School; advisor to the Board and the Programme Board of Dublin Area Rapid Transit (DART).

### Committee membership

Safety, health and environmental compliance committee; audit and risk committee; environmental sustainability committee.

Appointed to the Board: **2016**



**Stephen Duckworth**  
**OBE**

Non-executive director

#### Skills and experience

Stephen founded and ran Disability Matters Limited, a research and consultancy business with an emphasis on inclusive design. He initially qualified as a medical doctor and followed this with an MSc in rehabilitation studies and a PhD in disability equality.

Stephen currently sits on the boards of several organisations, has held numerous advisory roles to government, and carried out consultancy work with Southwest Trains and Eurostar.

He was awarded an OBE for services to disabled people in 1994.

#### Current external appointments

Non-executive director of Palace of Westminster Restoration & Renewal Delivery Authority; trustee of Leonard Cheshire; trustee of the Rugby Football Union Injured Players Foundation.

#### Committee membership

Audit and risk committee; standing invitation to the safety, health and environmental compliance committee.

Appointed to the Board: **1 April 2021**



**Michael Harrison**

Special director and non-executive director

#### Skills and experience

Michael is a director in UK Government Investments (UKGI) an arm's length body of HM Treasury. As part of this role Michael has been a non-executive director of a number of companies in which the UK Government has a shareholding including Porton Biopharma, Ordnance Survey, the Met Office, and Working Links.

Prior to working in UKGI Michael had a broad international corporate finance advisory career working for Credit Suisse First Boston, Barclays de Zoete Wedd, and as independent corporate finance advisor at Caliburn in Australia.

#### Current external appointments

Employee of UK Government Investments (UKGI).

#### Committee membership

Nomination and remuneration committee; audit and risk committee; treasury committee.

Appointed to the Board: **2020**



**Silla Maizey**

Non-executive director

#### Skills and experience

Silla has over 34 years' experience in the aviation sector, and most recently was British Airways' (BA) managing director of Gatwick. She was part of BA's executive leadership team and BA's customer director.

Silla brings a range of experience and insights to the Board, from operations to procurement, the shaping of the customer proposition and business reorganisations.

Silla is a fellow of the Chartered Association of Certified Accountants and a fellow of the Chartered Institute of Purchasing and Supply.

#### Current external appointments

Chair of NHS Business Services Authority; non-executive director of John Menzies plc; non-executive director of the Crown Commercial Service.

#### Committee membership

Audit and risk committee; treasury committee.

Appointed to the Board: **2016**

Sharon Flood resigned as a director on 23 August 2020.



**David Noyes**

Non-executive director

#### Skills and experience

David has spent his career working in the leisure and transport sectors. In a 20-year career at British Airways he held various directorships, and subsequently until December 2017 David was chief executive officer of Cunard and P&O Cruises, and a director of Carnival plc.

David is experienced in leading devolved businesses in safety critical industries with a focus on delivering customer service excellence and driving cost efficiency.

#### Current external appointments

Non-executive chair of Grays of Cambridge (International) Limited; non-executive director London Luton Airport Operations Ltd; corporate advisory board member for The Teenage Cancer Trust.

#### Committee membership

Chair of the nomination and remuneration committee; chair of the environmental sustainability committee; safety, health and environmental compliance committee.

Appointed to the Board: **2018**



**Mike Putnam**

Non-executive director

#### Skills and experience

Mike has over 25 years' executive experience across the development, construction and services sectors, and participated in successfully delivering high profile projects.

Mike was president and chief executive officer of Skanska UK plc until May 2017. Having been executive vice-president and a director, responsible for the infrastructure and then the building and construction businesses.

Mike is a Chartered Engineer and a fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors.

#### Current external appointments

Non-executive director of Southern Water Services Limited and Bazalgette Tunnel Limited; member of the DfT's Acceleration Unit Expert Panel; a member of the Supervisory Board of Arcadis NV.

#### Committee membership

Chair of the safety, health and environmental compliance committee; environmental sustainability committee.

Appointed to the Board: **2018**



**Fiona Ross**

Non-executive director

#### Skills and experience

Fiona is an experienced chair and non-executive director having served on boards in Ireland and the UK. Fiona chairs the Córas Iompair Éireann (CIÉ), Ireland's public transport provider, and is a Board member of the HSE, Ireland's public health service. Fiona is also a non-executive director at The Scottish Government.

Fiona began her career as a stockbroker in London. In 2012 she was awarded a fellowship in Governance at George Washington University in the United States.

#### Current external appointments

Chair of Córas Iompair Éireann; non-executive director HSE Ireland; non-executive director of The Scottish Government; non-executive director JK Funds; non-executive director of SphereInvest (a UCITs fund listed in Dublin); chair of the audit and risk committee of Smith & Williamson.

#### Committee membership

Nomination and remuneration committee; environmental sustainability committee.

Appointed to the Board: **2020**



**Stuart Kelly**

Group general counsel and company secretary

#### Skills and experience

Stuart is responsible for the Legal and Corporate Services function. Stuart has extensive in-house legal and corporate governance experience gained within the listed environment, having joined the company from Severn Trent plc where he held the position of Deputy General Counsel.

Stuart started his in-house legal career with Network Rail, prior to which he was a solicitor in private practice. Stuart is also a qualified civil engineer.

# CORPORATE GOVERNANCE REPORT

At Network Rail, we recognise the value of good corporate governance and believe that it's essential to the success of the company and to delivering our strategy for passengers and stakeholders. Throughout 2020/21, we've ensured that our governance arrangements are appropriate to the range of challenges we've faced. We've acted on external feedback and corporate governance reviews to maintain a high standard of governance.

## Covid-19 governance

In response to the pandemic we activated our Strategic Crisis Management Team (SCMT). Led by the director of Network Services, the SCMT includes colleagues from across the organisation and is responsible for managing the impact of coronavirus on the railway, our passengers and our people. The SCMT initially met daily, and then weekly, to coordinate the continuity of the company's business and keep the railway open.

The SCMT has been supported by the National Alert Coordination Group, which manages the logistical response to the pandemic within Network Rail. This included ensuring our workforce had the right personal protective equipment to continue working safely and coordinating our testing programme to provide an extra layer of protection for our people. Command structures within our regions and directorates also implemented necessary policy changes and managed day-to-day issues.

With the Rail Delivery Group, we created the Joint Executive Oversight Team where we worked to coordinate an industry-wide response. And the Rail Industry Coronavirus Forum set up Emergency Working Principles Agreements that enabled Network Rail and the trades unions to prioritise activities and work more quickly.

Our Board, its committees and the executive leadership team have continued to meet online to ensure we meet the needs of the railway. See page 15 for more on our response to the pandemic.

## Devolution

In 2019 we started our Putting Passengers First journey with a reorganisation. We devolved accountabilities and established platforms for us to deliver value for money to those we serve. We've made good progress, with new ways of working already reaping rewards for our customers and passengers.

Because of the added challenges caused by the pandemic, we've reorganised ourselves to strengthen devolution and be more agile and efficient. To give us fewer network-wide functions at executive level, we've transferred the responsibilities of both Network Services and the Group Transformation team into other existing network-wide functions.

Network Services provided services to our routes and regions, as well as network-wide operational oversight. We've put Network Services' route/region services together with Route Services so there's one place for interaction with internal customers, routes and regions. And to support better oversight and decision making across the full performance cycle of the railway, we've moved Network Services' activities that help the rail network operate effectively as a system into System Operator. We believe this will provide the best operational service for our customers and passengers.

There were previously teams leading on transformation at a network-wide level in Group Transformation and within Network Services. We've now transferred these teams to Group HR.

For more information on our Putting Passengers First programme see page 20.



## Rail Reform

On 20 May 2021 the Government published “Great British Railways: Williams-Shapps Plan for Rail – White Paper”. It shows how the Government “will make railways the backbone of a cleaner, more environmentally friendly and modern public transport system across the country.

“By replacing franchising, accelerating innovation and integrating the railways, Great British Railway will deliver an efficient, financially sustainable railway that meets the needs of passengers and those who rely on rail on a daily basis.”

The Board fully supports the Williams-Shapps Plan for Rail and will work closely with industry partners and key stakeholders to deliver its objectives.

## Engaging with our stakeholders

At Network Rail we consider our stakeholders to be at the heart of our strategy. The interests of key stakeholders and the matters set out in section 172 of the Companies Act 2006 (i.e. promoting success of the company) (see pages 24 to 25) have been considered in Board discussions and decision making.

The Putting Passengers First programme was built on an extensive listening exercise. We listened to a wide variety of stakeholders to help us understand what the company does well and where it needs to improve. We engaged with more than 300 colleagues at all levels, across the country, including frontline and office based, as well as external partners and organisations. The outcomes informed our Putting Passengers First programme.

Railway supervisory boards comprising Network Rail, train operating companies, Transport Focus, and other key stakeholders provide forums for discussions to identify opportunities to improve the experience of all passengers and freight users. The aim of these boards is to bring track and train closer together. Meetings were held in the Western route, Wales route, Anglia route, West Coast Main Line, and Chilterns; the System Operator Advisory Board provides a similar function.

## Engaging with our workforce

We recognise that employees who feel actively engaged with the company, its purpose, vision and strategy and who feel

listened to, are more likely to feel that their work is meaningful and will make a difference for users of the railway.

Since its development, the Network Rail Story (see page 8) has been the foundation of our workforce engagement. We’ve a wide range of initiatives through which we engage with our people, including:

- Putting Passengers First programme;
- systems thinking interventions;
- listening programmes;
- business briefings;
- employee networks;
- reverse mentoring
- Trade Union engagement; and
- employee newsletters (The Network and Front Line Focus).

As well as this, we use regular employee engagement surveys to understand what our people are thinking and feeling at a given time. The surveys show whether there has been an improvement compared with previous years, and if further action is needed. There are three surveys each year. In 2021 there will be a full Your Voice survey, and two Your Voice pulse surveys focussing on progress and direction. Our Board is briefed on the outcome of the surveys and considers any actions required. Our routes and functions also run additional, locally focussed surveys if needed.

See How we engage with our stakeholders on pages 24 and 25 for more information on how and why we engage with our workforce.

## The Network Rail Board

During 2020/21, the Board focussed much of its time on:

- our six strategic priorities (see page 21)
- the industry response to the pandemic
- the environmental sustainability strategy
- workforce safety

During 2021/22, it’s anticipated that the Board’s focus will be on:

- workforce safety/Safety Task Force
- earthworks/weather resilience/environmental sustainability strategy
- industry recovery from the pandemic and the return of passengers
- Williams-Shapps Plan for Rail
- updated freight strategy”

## Compliance with the UK corporate governance code

The Board believes that in 2020/21 the company fulfilled the principles and provisions of the UK Corporate Governance Code 2018, except for the following provisions that it's unable to comply with, mainly due to our status as an arm's length body of the Government:

- provision 5: relating to the prescribed methods of engagement with employees. The three options suggested by the code were considered by the Board. However, each was discounted as an appropriate method for Network Rail because our workforce engagement activities already go beyond the requirements of the code;
- provision 9: in respect of appointment of the chair. The Secretary of State appoints the chair in accordance with the Governance Code on Public Appointments;
- provision 25 and 26: in respect of the appointment, re-appointment and removal of the external auditor. Under the terms of the Framework Agreement between the company and the Department for Transport (DfT), the

Comptroller and Auditor General assisted by the National Audit Office acts as Network Rail's external independent auditor; and

- provision 34: in respect of the remuneration for the chair. Under the terms of the Framework Agreement, the remuneration of the chair is agreed by the Secretary of State.

The Code can be found on the Financial Reporting Council's website: <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

The Board believes that the company complied with the Corporate Governance in Central Government Departments: Code of Good Practice. The code can be found on the Government's website: <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

## Board leadership and company purpose

Network Rail owns, operates and develops Britain's railway infrastructure. We operate within regulatory and control frameworks and are an arm's length government body. Our financial management and corporate governance ways of working with the DfT are described in the Framework Agreement. A copy of the agreement is available on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board ensures there is effective engagement with stakeholders and encourages participation from them. Michael Harrison, director of UK Investments at UKGI, was appointed as the company's special director in May 2020. On behalf of the Secretary of State, Michael is responsible for communicating the views of the Secretary of State and the DfT's wider strategic, statutory and fiduciary interests to the Board, while acting in accordance with his duties as a non-executive director.

Network Rail is regulated by the Office of Rail and Road (ORR) under its Network Licence for our management of the rail infrastructure. The ORR fixes the income Network Rail receives from the Government and the outputs it must deliver during each five-year control period. Our Board is accountable to the Secretary of State for Transport for the leadership and management of the business.

The Board oversees workforce policies and practices, ensuring these are consistent with our values and support our long-term sustainable success. More information on our whistleblowing policy and code of business ethics can be found on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board is also responsible for running Network Rail to the standards required of a company with shares listed on the London Stock Exchange.





## The Board's role and responsibilities

The Secretary of State is the sole member of the company, and as the Special Member has special rights:

Rights of the Special Member (the Secretary of State for Transport)	How these rights were exercised in 2020/21
To appoint and remove the chair of Network Rail.	The chair was re-appointed during the year and his term runs until 2023.
To approve the Board's suggested candidate for chief executive of Network Rail.	N/A
To appoint a special director of Network Rail.	Michael Harrison was appointed as the special director on 11 May 2020.
To be consulted on non-executive director appointments.	Network Rail consulted with the DfT in relation to: <ul style="list-style-type: none"> <li>• appointing both Mike Putnam and David Noyes for a second, three-year term</li> <li>• appointing Ismail Amla, Mark Bayley CBE, Stephen Duckworth and Fiona Ross as non-executive directors with effect from 11 May 2020.</li> <li>• the appointment of new non-executive directors.</li> </ul>
To hold regular meetings with the chair, to discuss corporate strategy and raise concerns.	The chair regularly meets with the Secretary of State and the Permanent Secretary of the DfT.
To approve the three-yearly remuneration policy for executive directors of the company.	The three-yearly remuneration policy was approved at the 2020 AGM. Network Rail consulted with the DfT and HMT on the content of the policy.
To set the pay for the chair and non-executive directors.	The remuneration of the chair and his contractual time commitment were reviewed and agreed by the DfT.

The chair leads the Board as it develops Network Rail's strategy to deliver the outputs required in each of the five-year control periods. The Board is responsible for ensuring that appropriate resources are in place to deliver the strategy.

The responsibilities of the Board are described in the list of matters reserved for the Board, which is available on our website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board understands the importance of delivering value for money in the company's management of the railway and considers the principles set out in the Code of Conduct for Board Members of Public Bodies, the 7 Nolan Principles of Public Life, and the Civil Service Code, as part of its decision making process. The 7 Nolan Principles of Public Life can be found on the Government website: <http://gov.uk/government/publications/the-7-principles-of-public-life>.

## Board committees

The Board has delegated several of its responsibilities to its six committees. A summary of their activity in 2020/21 is included in each committee's report on pages 104 to 133.

Audit and risk committee, pages 111 to 116.

Nomination and remuneration committee, pages 119 to 133.

Safety, health and environmental compliance committee, pages 104 to 106 .

Treasury committee, pages 117 and 118 .

Environmental sustainability committee, pages 107 and 108.

Property supervisory committee, pages 109 and 110.

Network Rail Board and committee structure



## Board and committee terms of reference

The terms of reference govern the structure, remit and operations of our board and committees, including their delegated responsibilities and authority. Terms of reference are reviewed annually to ensure the activities reflect current regulatory and governance requirements and best practice. The terms of reference can be found at [www.networkrail.co.uk](http://www.networkrail.co.uk)

## The executive leadership team

The executive leadership team is responsible for the day-to-day management of the company. It meets regularly to consider strategic and operational matters. The team includes the chief executive, chief financial officer, five regional managing directors and five other senior executives.

## Board composition and division of responsibilities

At the date of this report, the Board consisted of one non-executive chair, two executive directors and nine non-executive directors.

Photographs and biographies of the Board of directors, including details of their skills and experience can be found on pages 90 to 93.

### Chair – Sir Peter Hendy CBE

The chair is responsible for leading the Board, its effective functioning and promoting the highest standards of corporate governance, he encourages all directors to actively contribute to Board meetings and promotes constructive relations between the executive and non-executive directors. The chair represents Network Rail and works with the chief executive to develop strategic relationships with the non-executive directors, the customers of Network Rail, DfT, HM Treasury, Parliament, the Cabinet Office, Transport Scotland, Welsh Assembly Government and other stakeholders. The chair reviews the performance of the non-executive directors.

### Senior independent director (SID) – Rob Brighthouse

The SID acts as a sounding Board for the chair and serves as an intermediary for the other directors when necessary. The SID is responsible for the chair's performance review. He is available to the Secretary of State if they have concerns or where contact through the chair is inappropriate or has failed to resolve an issue.

### The special director – Michael Harrison

The special director is appointed by the Secretary of State. They are responsible for communicating the views of the Secretary of State and the DfT's wider strategic statutory and fiduciary interests to the Board, while acting in accordance with their duties as a non-executive director.

### Chief executive – Andrew Haines OBE

The chief executive is responsible for setting the strategic direction of the company and for the company's performance. He keeps the Board informed and brings to its attention all matters that significantly affect, or are capable of significantly affecting, the achievements of Network Rail. The chief executive provides clear and visible leadership in business conduct and promotes the requirement that all executive leadership team members and employees demonstrate the company's values. He is accountable to the Board for all elements of Network Rail's business, and specifically for safety performance. He is also the accounting officer.

The chief executive is personally accountable to Parliament for safeguarding the public funds available to Network Rail; for ensuring appropriateness, value for money and feasibility in the handling of those public funds; for the day-to-day operations and management of Network Rail and for signing the accounts, the annual report and the governance statement. He is required to ensure that Network Rail is run following the principles, rules, guidance and advice set out in Managing Public Money, which can be found on the Government's website: <https://www.gov.uk/government/publications/managing-public-money>.

As the accounting officer, he is supported by the Board for the responsibilities set out in Managing Public Money, and for the proper conduct of business and maintenance of ethical standards. The internal audit function also supports the accounting officer. The director of risk and assurance provided his audit opinion to both the accounting officer and the audit and risk committee. The opinion considered the overall adequacy and effectiveness of Network Rail's framework of governance, risk management and control. For further details on the internal audit function and on the audit and risk committee, see pages 111 to 116.

### Chief financial officer – Jeremy Westlake

The chief financial officer is responsible for leading Network Rail's finance function which includes the teams working on matters related to (i) planning, finance and efficiencies, (ii) financing, funding and commercial matters, and (iii) governance, risk, assurance and improvement (GRAI).

In June 2020 a new Rail Investment Centre of Excellence was established in the finance function, when the former Infrastructure Projects function was devolved to regions and functions.

### Independent non-executive directors

Rob Brighouse, Mark Bayley, Silla Maizey, David Noyes, Fiona Ross, Mike Putnam, Ismail Amla and Stephen Duckworth are considered by the Board to be independent of the company. Sharon Flood resigned from the Board on 23 August 2020, after serving for six years. Mark Bayley CBE and Fiona Ross were appointed as non-executive directors on 11 May 2020. Ismail Amla and Stephen Duckworth were appointed as non-executive directors on 1 April 2021.

The non-executive directors provide independence, external skills and challenge to the Board through broad business and commercial experience from the rail and other industries. They provide assurance that the executive directors are exercising good judgement in the delivery of strategy and decision making.

The Board reviews the independence of its non-executive directors annually as part of its Board effectiveness process. It has considered if there are any circumstances which are likely to impair or could appear to impair the independence of a non-executive director.

When considering the appointment of new directors, the Board takes into account the other demands on the proposed director's time. The Board asks that significant commitments and an indication of the time commitment are disclosed to the Board prior to appointment.

The Board notes that the corporate governance code includes guidelines on the meaning of 'independence', and it is appropriate to disclose that Rob Brighouse and Mark Bayley are beneficiaries of the Railway Pension Scheme (RPS). Over 150 companies from the rail industry participate in the RPS and the scheme is run by independent trust managers. Given this structure, the Board considers that both directors are independent, as Network Rail is only one of the contributing companies to RPS.

The links to the statements of responsibility for the chair, chief executive, senior independent director and the non-executive directors can be found on the Network Rail website [www.networkrail.co.uk](http://www.networkrail.co.uk).

### Group general counsel and company secretary – Stuart Kelly

The group general counsel and company secretary provides advice and support to the Board, the chair and the directors on legal and governance matters. He ensures that a high standard of governance is maintained so that the Board

functions effectively and efficiently. The appointment and removal of the company secretary is a matter for the Board as a whole.

## Directors' attendance at meetings

The Board met nine times during 2020/21 and has also held two strategy meetings.

Directors' attendance at Board meetings for the year ending 31 March 2021, is shown in the table below. Non-executive directors are also required to attend various committee meetings and their attendance is shown in the respective committee reports on pages 104 to 133.

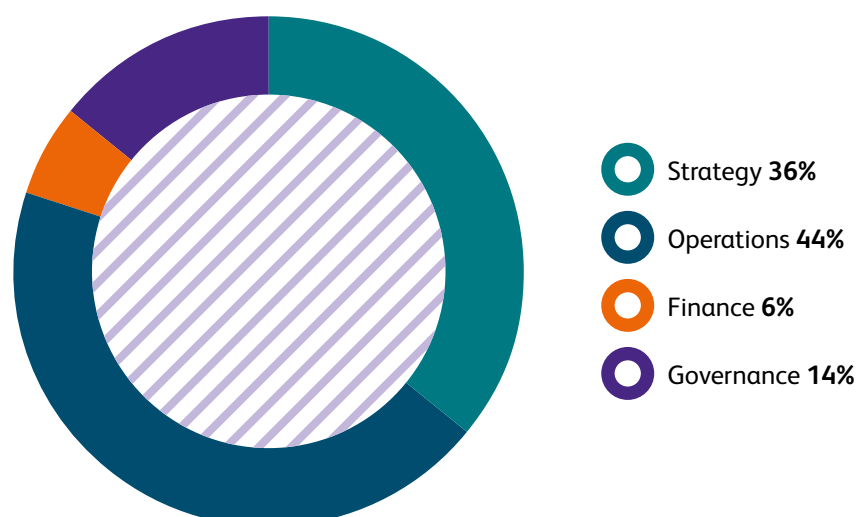
During 2020/21, there were a number of changes to membership of the Board.

Sharon Flood resigned on 23 August 2020, having served on the Board for six years. Mark Bayley, Michael Harrison and Fiona Ross were all appointed on 11 May 2020. Ismail Amla and Stephen Duckworth were appointed as non-executive directors on 1 April 2021, and therefore did not attend any meetings in 2020/21.

	Total
Mark Bayley CBE	8/8
Rob Brighouse	9/9
Sharon Flood	3/3
Andrew Haines OBE	9/9
Michael Harrison	7/8
Sir Peter Hendy CBE	9/9
Silla Maizey	9/9
David Noyes	9/9
Mike Putnam	9/9
Fiona Ross	8/8
Jeremy Westlake	9/9

## Board activities during the year

The chart below shows the key activities of the Board during 2020/21 and how the Board allocated its time. The Board's activities are shaped around our six strategic themes: safety; train service delivery; efficiency; sustainable growth; customers and communities; people.



## Composition, succession and evaluation

### Board recruitment and induction

Details of the appointment process for the directors appointed during the year can be found in the nomination and remuneration committee report on pages 119 to 121.

A comprehensive induction programme is in place for newly appointed directors, which is tailored to each director in consideration of their background knowledge, skills and experience. New directors are provided with key corporate, strategic and financial documents to familiarise them with the company's business. The induction programme includes individual meetings with Board members, the group general counsel and company secretary, senior executives and other key stakeholders.

### Succession Planning

The Board and the nomination and remuneration committee considers whether the appointment process and the approach to succession planning supports a diverse and sustainable pipeline of talent for senior roles within the business. The Board recognises that effective talent management programmes are necessary to improve diversity within all levels of the company and are essential for the delivery of the company's long-term strategy and objectives.

### Board and executive diversity

The Board is aware that diversity extends beyond gender, and includes amongst other things age, social, ethnic, educational and professional backgrounds. Further details about Network Rail's organisational diversity and inclusion policies and how these have been implemented in the year can be found in the Our people section, page 67.

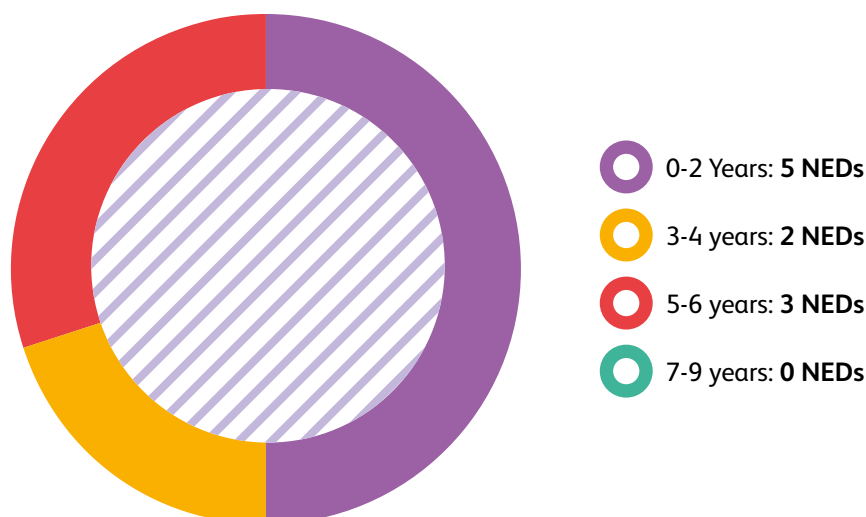
We know that to truly put passengers first, empower our people and make them proud to work here, our senior leadership needs to be reflective of our passengers, our people and the communities we serve. That's why the Board approved Network Rail's first Board diversity and inclusion policy in February 2021. The policy notes the company's long-term ambitions in relation to board diversity and specific objectives to progress towards them. These include that, by the end of the 2021/22 financial year, at least one third of the Board will be female and one of the directors will be from a BAME background.

The policy is supplementary to the organisational equality, diversity and inclusion policy and the Everyone Matters diversity strategy, and implements their aspirations in the context of our senior leaders. The full policy can be found on the Network Rail website [www.networkrail.co.uk](http://www.networkrail.co.uk).

The Board is comprised of ten non-executive directors and two executive directors. These individuals come from a

variety of backgrounds and experience. The Board is 83 per cent male and 17 per cent female, however, when considering non-executive directors only, the split is 80 per cent male and 20 per cent female.

The following chart shows the length of service of the non-executive directors.



## Board effectiveness

The Board is committed to maintaining the highest standards of corporate governance. In line with best practice, Manchester Square Partners (MSP) undertook a review of the effectiveness of the Network Rail Board in early 2021.

The process involved one-to-one interviews with Board members and the group general counsel and company secretary. Executive leadership team members, colleagues at the DfT, ORR and Transport Scotland were also interviewed.

MSP reviewed Board and committee meeting papers and observed the March 2021 Board meeting. A report on the review, including recommendations, was provided to the Board in July 2021.

The key findings of MSP's board effectiveness review are set out below.

The key finding from the review was that the Board was "an exceptionally busy and demanding one with a challenging and content rich agenda ... overall performance is deemed strong". Manchester Square Partners' primary recommendations to make the Board even more effective included:

1. the Board should consider whether the balance between technical, operational matters coming to the Board

and more strategic matters was appropriate. It was acknowledged that some of the technical, operational matters had a strategic element to them;

2. given the Board's complex and busy agenda, careful attention should be paid to the resilience and capacity of individuals to effectively manage a substantial volume of work. In this context it was important that succession plans for senior and business critical roles were regularly reviewed for both planned and unplanned situations; and
3. the importance of giving the Board sufficient time for reflection and discussion that was not driven by an agenda or the need to make decisions.

An action plan was being developed to address these findings. The action plan, and progress against delivering it, would be agreed/monitored by the nomination and remuneration committee.

## Professional development, training and support for directors

Board members are offered a range of training and development opportunities each year to support their continuing professional development. Directors often receive corporate governance and legal updates, as appropriate.



Regional managing directors and function heads regularly attend Board meetings to provide updates on the key issues affecting their areas of the business.

The directors have access to the advice and services of the group general counsel and company secretary, who is responsible for compliance with Board procedures and the provision of information to the Board in a timely manner. The directors have the right to seek independent professional advice at reasonable expense to Network Rail.

In November 2020 the Board was briefed on the periodic review (PR) process, ahead of PR23. Periodic reviews are one of the principal mechanisms by which the ORR holds Network Rail to account and secures value for money for users and funders of the railway. PR23 will determine what Network Rail should deliver in our role of operating, maintaining and renewing the network in Control Period 7, which will run from April 2024 – March 2029. The briefing considered Network Rail's regulatory environment and the Board's role in the PR process.

## Election and re-election of directors

Each of the directors is subject to (re-) election at the 2021 AGM. The Board considers that all directors act in good faith, for the long-term benefit and success of Network Rail, and continue to perform effectively.

## Directors' and officers' (D&O) liability insurance

Network Rail maintains D&O liability insurance. Network Rail did not indemnify any directors during 2020/21.

## Directors' conflict of interest

The Board identifies and manages potential conflicts of interests that directors may have. Each Board meeting begins with disclosure of potential conflicts of interest. At the date of this report, the following key potential conflicts of interest have been declared:

- Michael Harrison is director of UK Investments at UKGI;
- Mike Putnam is a member of Arcadis NV's supervisory board;
- Fiona Ross is a non-executive director at The Scottish Government; and
- Neil Sachdev, non-executive director of Network Rail's Property Supervisory Committee, is chair of the East West Rail Company Limited.

## The Annual General Meeting (AGM)

The formal business of the AGM is set out in a number of separate resolutions to be considered at the meeting. The company's sole member, the Secretary of State for Transport, is provided with a copy of the notice of meeting, alongside the annual report and accounts (as is the National Audit Office). The Secretary of State can vote either for or against a resolution or can withhold his vote (although the law does not class a withheld vote to be a vote). Final voting figures are announced to the London Stock Exchange.



**Sir Peter Hendy CBE,**  
chair  
15 July 2021



**Andrew Haines OBE,**  
chief executive and accounting Officer  
15 July 2021

# SAFETY, HEALTH AND ENVIRONMENTAL COMPLIANCE COMMITTEE REPORT

I'm grateful for the opportunity to present the committee's report for 2020/21. Running a safe railway will always be our priority. We want everyone to feel safe whether they're working on, living near, or travelling on the railway. We've worked tirelessly to keep our passengers and workforce safe during the Covid-19 pandemic, while operating a railway to help key workers, transport much needed freight goods, and keep the rest of the country running.

Tragically, three people lost their lives on the 12 August 2020 when a train derailed at Carmont, near Stonehaven. Brett McCullough was driving the train, Donald Dinnie was a conductor, and Christopher Stuchbury was a passenger. In response, Network Rail set up two new external task forces, one aimed at its response to severe weather events, and the other aimed at management of earthworks and drainage along the railway.

Sadly, there were also three workforce fatalities in the year. On 8 April 2020 Aden Ashurst, working for AmcoGiffen, was struck by a train at Roade. On 30 November 2020, Kevin Mauger was fatally injured at the Long-Welded Rail Facility in Eastleigh. On 9 February 2021, Tyler Byrne was struck by a train at Surbiton. Investigations are underway to determine the causes and to prevent similar events from ever happening again.

The trackworker Safety Task Force has continued its work to improve our people's safety when working on our tracks through better task planning, increased use of safety equipment, and through the eradication of lookout working. The task force has completed 2,913 out of 6,463 key objectives that are to be delivered by 31 July 2022; and we've seen the use of unassisted lookouts decrease by over 75 per cent since July 2019. Near misses involving our workforce have also decreased by half during 2020/21.

The pandemic had a major impact on our safety performance this year. And we have been strengthening how we support mental health and wellbeing. At the end of 2020/21, 20 per cent of line managers had been trained. This is a 10 per cent increase on 2019/20. Because we've been socially distancing colleagues we've had more vehicles on the road; life-saving rules breaches rose and were mostly related to employees speeding in road vehicles.

The number of suicides and trespass incidents that took place on the railway was slightly below that of the previous year. Our partnership with Learn Live has educated over ten million children and young people in schools and colleges nationally, on the dangers associated with railway trespass; this has coincided with an encouraging reduction in reported child trespass. The remit for this relationship has now been extended to include level crossing and station safety.

The committee reviewed the safety performance data that makes up part of the performance related pay award for senior executives and made a recommendation to the remuneration committee (see page 126).



**Mike Putnam,**  
chair, safety, health and environmental  
compliance committee

15 July 2021

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Mike Putnam	Feb 2018	6/6
Rob Brighouse	Jan 2016	6/6
Sir Peter Hendy	Oct 2015	6/6
David Noyes	Dec 2018	6/6

\* Stephen Duckworth was appointed to the Board and committee on 1 April 2021

## Committee attendees

Several of our executives are invited to attend the committee's meetings including the chief executive, the group director for the Technical Authority, and the chief quality, health, safety and environment officer. Stephen Duckworth, non-executive director, has a standing invitation to attend meetings. Other executives and external visitors are also invited from time to time to report on specific areas that lie within the committee's areas of responsibility.

The general secretary of the National Union of Rail, Maritime and Transport Workers (the RMT) is invited to attend all meetings. This adds scrutiny and challenge to the committee's business and is consistent with our commitment to remain transparent to the wider rail industry and its important stakeholders.

Ian Prosser CBE, chief inspector of railways and director of railway safety at the Office of Rail and Road (ORR), attends two meetings each year to present the regulator's view on our safety performance.

## Role and responsibilities of the committee

The environmental aspect of the committee's role has been redefined since the creation of the environmental sustainability committee in 2020. The SHEC committee now oversees environmental legal and regulatory compliance while the environmental sustainability committee has broader responsibility for environmental strategy and related matters.

The committee's role is to monitor how the company implements its responsibilities on safety and health through its everyday business activities, and how it complies with its environmental obligations. The committee needs to be

satisfied that the company's relevant strategies, policies and procedures are effective, reviewed and adapted as necessary to evolving business activities.

What the committee does:

- it reviews the group's strategies, systems, policies and practices for SHEC. It also makes sure that the governance and management structures support these being implemented effectively
- it considers the significant risks to individuals and the company's strategies for SHEC and whether the executive is managing them effectively
- it reviews internal audits, within its SHEC remit, that are carried out across the company on the effectiveness of strategies, systems, policies and practices. It makes sure that the audits have the correct scope and it follows up to confirm that any recommendations have been properly addressed and implemented
- it considers findings from internal and external investigations and how the executive has responded to them
- it makes recommendations to the nomination and remuneration committee on the company's SHEC performance to inform decisions about performance related pay.

After each meeting, the chair reports to the next Network Rail Board meeting.

## Principal activities during the year

In 2020/21 the committee discussed:

- quarterly SHEC reports from the group Technical Authority. These included scorecard data, information on workforce safety, workforce and contractor accidents, train accident risks, level crossings, health and wellbeing, public safety, and contractor performance
- quarterly updates on safety risks and internal audits on SHEC matters

- scrutiny of SHEC-related incidents including those at Carmont, Eastleigh, Surbiton, Margam, and Llangennech and what lessons could be learned and applied, and monitoring our business follow up to any SHEC related recommendations from the Rail Accident Investigation Branch (RAIB)
- the SHEC performance of our regions and functions, particularly focussing on how safety and health and wellbeing were being incorporated and devolved within Network Rail's Putting Passengers First programme
- quarterly updates on SHEC matters relating to the Covid-19 pandemic including keeping our workforce and the public safe and well
- safety, health and wellbeing strategies including the safety of the public on and around the railway network including on trains, at level crossings and in stations; track worker safety and the actions we're taking to reduce the number of near misses on and near railway tracks
- Lord Robert Mair's review of earthworks following the tragic accident at Carmont, Aberdeenshire on 12 August 2020
- Our business-wide programmes to improve safety culture in the workplace including the Safety Task Force which was set up following the tragic events at Margam in July 2019, and the safety culture programme conducted by JMJ consultants.

### Internal audit

Internal audit plays a key role in providing independent assurance in managing safety, health and environmental compliance risks. At each meeting the director of risk and internal audit updated the committee on any changes to the SHEC audit plan, notable audits, overdue actions, themes and key issues arising from Internal Audit's work.

Audits included our management of manual handling and spoken safety critical communications, and activities are now underway to address the risks. This includes updating both organisation wide standards and policies as well as route operational controls. Internal Audit has reviewed the progress of the safety task force, providing confidence that it is appropriately set-up to deliver, and will continue to provide independent assurance during 2021.

### Annual site visit, July 2020

The committee makes an annual visit to locations around the country to see first-hand the SHEC issues they discuss at meetings. In 2020 the committee visited Reading Station to review the recent developments at the station itself, Reading Depot, and the new technology and equipment that the Safety Task Force was trialling to keep track workers safe from the risk of moving trains.

## Planned activities for 2021/22

- Workforce safety and wellbeing including ongoing monitoring of progress made by the Safety Task Force and safety culture programmes.
- Public and workforce safety including an ongoing review of fire inspection compliance and procedures across the business.
- A review of signals passed at danger incidents (SPADs) and reviewing potential technical solutions.
- Environmental compliance and ongoing monitoring of how Network Rail is ensuring compliance with environmental legislation, regulation and best practice.
- Governance: monitoring SHEC issues and how they are being effectively addressed within Network Rail's evolving business structure.

# ENVIRONMENTAL SUSTAINABILITY COMMITTEE REPORT

I'm pleased to present the committee's report into the key activities undertaken during 2020/21 alongside its anticipated activities for 2021/22.

An environmental sustainability advisory committee had been originally created in October 2019 to provide support and advice to the executive in the development of Network Rail's environmental sustainability strategy which was approved by the Board in July 2020. The original committee, chaired by Sharon Flood, had been instrumental in developing and endorsing an overarching environmental sustainability strategy and ambitious vision to meet the expectations of all of Network Rail's stakeholders including passengers and freight users, staff and the wider public.

Following publication of the strategy in September 2020, the Board established this committee to provide support and oversight into its implementation of the strategy.



**David Noyes,**  
chair, environmental sustainability committee  
15 July 2021

Committee members	Formal appointment to the committee	Number of meetings attended during the year
David Noyes	September 2020	3/3
Rob Brighthouse	September 2020	3/3
Mike Putnam	September 2020	3/3
Fiona Ross	September 2020	3/3

## Committee attendees

Internal: The chair of the Board, chief executive, managing director – Route Services, managing director – Eastern region, managing director – System Operator, group safety and engineering director - Technical Authority, chief environment and sustainability officer, and head of strategic communications.

External: Representative from the Department for Transport, and a representative of the Sustainability Rail Executive (SRE) of the Rail Safety and Standards Board (RSSB). The committee also invites expert advisers to attend meetings at periodic intervals.

## Role and responsibilities of the Committee

The current role of the committee involves supporting and, where appropriate, providing oversight of and guidance to the executive in the implementation of the environmental sustainability strategy, ensuring that Network Rail is keeping abreast of wider environmental issues as well as co-ordinating its programmes with the wider industry.

## Principal activities during the year

The first half of 2020/21 was dedicated to the development and launch of the sustainability strategy. From September, the committee was involved in making sure that Network Rail:

- had a sound plan of action to deliver this ambitious strategy with an appropriate resourcing plan
- had the right key performance indicators (KPIs) to measure the targets that have been set and that activities that would enable achievement of the goals are recorded
- had effective supply chain strategies to deliver the strategy's objectives
- had effective sharing of the lessons learnt across both Network Rail and the rest of industry to identify and implement best practice
- worked with external partners and bodies to develop a whole-of-industry approach to sustainability
- had a robust communications and engagement plan to support implementation.

In September 2020, Network Rail also published its traction decarbonisation network strategy (TDNS) interim business case which sets out the different ways that Network Rail could contribute to the reduction of direct carbon emissions from trains.

In October 2020, Network Rail continued to demonstrate its commitment through the publication of the science-based carbon reduction targets making it the first railway in the world to set targets that would help limit global warming to 1.5 degrees.

The biodiversity action plan was published setting out how biodiversity targets would be achieved, and a training programme launched to support people in better biodiversity management across the Network Rail estate.

In December, the committee approved the proposal to be the 35th signatory of the International Union of Railways Climate declaration.

## Planned activities for 2021/22

The next twelve months will see the committee continue to build momentum with delivery of the environmental sustainability strategy milestones. The regions will continue to develop their own local plans to align with the corporate strategy and reflect the specific challenges and opportunities relevant to their geographical areas.

The 2021 committee workplan will involve oversight and review of resourcing to deliver the ambitious plan, and roll out of technology to deliver a cleaner and greener railway. It will also monitor the roll out of electric charging points for electric vehicles; the plan for the next stages of electrification; development of the Social Value Strategy; baselining for whole-life carbon in assets; minimising waste and recycling; and joint plans with supply chain partners targeted at carbon emissions reductions. Network Rail will be supporting the Government as it hosts the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in June 2021.



# PROPERTY SUPERVISORY COMMITTEE REPORT

**The property supervisory board became a committee of the Network Rail Board in 2020.**

I'm pleased to present the committee's report into the key activities undertaken during 2020/21, alongside its anticipated activities for 2021/22.

Firstly, I'd like to welcome Mark Bayley CBE to the committee. Mark has spent much of his career in the rail sector. He has particular experience in major projects, restructurings and corporate finance.

The past year has been incredibly challenging for our retailers, tenants and commercial partners. We have been determined to show them support, care and empathy during the pandemic, while they've continued when possible to provide vital goods and services for our passengers, particularly those critical workers who have kept the country moving during the pandemic. In March 2020, we introduced swift and significant financial measures to support retailers in our managed stations and tenants in our commercial estate. These measures have continued throughout 2020/21 and the committee has helped to shape and refine them. We've also engaged with the wider rail sector and Government to ensure our financial measures are commensurate and fair. And we've championed collective approaches and shared lessons learned during an unprecedented crisis for the sector.

We've focussed on devolving Property from a national function to a regional model, as part of our wider programme to put passengers first. This key milestone was achieved in September, with five regional property teams established, each led by a regional property director. They are now supported by a smaller group property team, led by our group property director. Group Property provides services and activities to the regions, as well as delivering some activities centrally for reasons of value add, economic and consistency.

Embedding property expertise within each region will better align the teams to regional objectives and develop strategies that put passengers first. They'll do this by

optimising the use of operational land, generating capital receipts to reinvest in the railway, releasing land for new homes, and improving conditions and access for our frontline staff.

The committee has continued to monitor Network Rail's overall property performance against its strategy for Control Period 6 (CP6). This has ensured property colleagues across the company continued to focus on supporting the regions to deliver activities, put passengers first, develop sites through partnerships, and deliver land for housing. They've also been working with partners to deliver positive railway and community outcomes, and providing great places for businesses and communities to thrive.



**Sir Peter Hendy CBE,**  
chair, property supervisory committee  
15 July 2021

Committee members	Formal appointment to the committee (formerly Property Supervisory Board)	Number of meetings attended during the year
Sir Peter Hendy CBE	December 2019	6/6
Mark Bayley CBE <sup>1</sup>	October 2020	3/6
Neil Sachdev MBE	July 2016	5/6
Stephen Smith	July 2016	6/6

1. Mark Bayley CBE was appointed to the committee on 6 October 2020

## Committee attendees

Sir Peter Hendy CBE, chair of the committee, is also the chair of the Board. The chief financial officer, group property director, managing director Southern region, and the general counsel for property normally attend meetings by invitation as well as representatives from the Department for Transport, Treasury and the Infrastructure and Projects Authority. Group and regional property directors also attend meetings by invitation.

## Role and responsibilities of the committee

The committee's role is to consider and provide advice upon:

- the long-term vision and strategies for Network Rail property
- regional property related strategies and the management of them, including reviewing the respective regional property directors' business plans
- key risks and opportunities
- the performance of the regional property directors and group property team
- subject to the delegated authority to the committee, make decisions or make recommendations
- consider any other matter specifically referred to the committee by the Board or the executive leadership team.

## Principal activities during the year

At each meeting the committee receives detailed property updates for discussion. The group property director provides a written summary of the committee's activities, the main discussion points, findings, and any recommendations to the Board for its next meeting.

Until March 2020 the committee had a programme of site visits in the five regions to tie in with their committee meetings. Due to Covid-19 these visits have been deferred and will be reinstated when it is safe to do so.

Other areas of focus during the year have included:

### **London & Continental Railway (LCR)**

In early 2019 we established a formal collaboration with LCR to explore the potential to redevelop land at and around stations, to deliver land for residential and commercial development, and to generate passenger benefits and money to be reinvested in the operational railway. Updates on the collaboration are given and reviewed at each committee meeting. The chair of LCR attended the September 2020 meeting.

### **Redevelopment of Euston Station**

The committee has reviewed and provided feedback on the key developments underway at Euston station.

### **Regional Property directors' reports**

Following the Putting Passengers First organisational changes, all regional property directors have presented to the committee giving them an overview of regional property strategies, targets and efficiencies.

## Planned activities for 2021/22

In the year ahead, the committee will continue to monitor progress on:

- devolution and the regional property model
- workplace optimisation and the use of our office estate
- Covid-19 recovery, particularly retail remobilisation
- collaboration with LCR and delivering land for housing

# AUDIT AND RISK COMMITTEE REPORT

I'm pleased to present the committee's report into the key activities undertaken during 2020/21, alongside its anticipated activities for 2021/22. This is my first report as chair of the committee and I would like to thank my fellow committee members for their contributions, insight and support in this period. I also welcome Michael Harrison, who joined the committee in September 2020.

During 2020/21, the committee continued to focus on the audit, assurance and risk management processes within the business in addition to its oversight of financial and other regulatory requirements. The committee's work focussed on the risks facing the business, to understand better the nature of the risks and provide assurance to the Board on the effectiveness of the associated internal controls.



**Mark Bayley CBE,**  
chair, audit and risk committee  
15 July 2021

The committee met four times during 2020/21. Members collectively have a broad range of finance, commercial, aviation/transport and rail sector expertise that enables them to provide effective oversight of financial, operational and risk matters and to advise the Board accordingly. All members of the committee are independent non-executive directors, and the chair has recent and relevant financial experience.

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Mark Bayley CBE <sup>1</sup>	May 2020	4/4
Rob Brighouse	Jan 2016	4/4
Sharon Flood <sup>2</sup>	Sept 2014	1/1
Michael Harrison <sup>3</sup>	Sept 2020	3/3
Silla Maizey	Nov 2016	4/4

1. Mark Bayley CBE was appointed to the Board and committee on 11 May 2020
2. Sharon Flood resigned from the Board and committee on 23 August 2020
3. Michael Harrison was appointed to the Board on 11 May 2020 and to the committee on 7 September 2020
4. Stephen Duckworth was appointed to the Board and committee on 1 April 2021

## Committee attendees

The chair of the Board, the chief executive, chief financial officer, director of risk and internal audit, group controller (finance), head of group risk, and the group general counsel & company secretary attend meetings of the committee by invitation. Representatives from the National Audit Office

(NAO) also attend each meeting. At each meeting, time is set aside for the representatives from the NAO and the director of risk and internal audit to meet with committee members without executive management present.

## Role and responsibilities of the committee

The committee monitors the integrity of the financial reporting and the audit process and Network Rail's system of internal control. The committee also oversees risk management, regulatory reporting and compliance. It makes recommendations to the Board on the level of risk appetite acceptable to the company.

Following each meeting, the chair provides a summary of the committee's activities, main discussion points and findings to the next Board meeting along with a written report provided by the committee secretary, and makes recommendations as appropriate.

## Principal activities during the year

The committee had presentations from four regional managing directors on the key risks affecting their business plans. There were also updates on the Putting Passengers First programme, cyber security, the competence management system, business contingency planning in

response to the Covid-19 pandemic, timetabling risks, and weather and climate change resilience.

At each meeting the committee receives business updates from group finance, internal audit, group risk and the independent external auditor. In addition to regular updates, the committee considers the emerging and principal risks facing the business and elevates these to the Board where necessary. The committee conducts an annual evaluation of its effectiveness, details of which are provided below.

## Fair, balanced and understandable

Following a review, the audit and risk committee confirmed that the annual report and financial statements for 2020/21 present a fair, balanced and understandable overview and provides the information necessary to assess the company's position, performance, business model and strategy. The committee therefore proposed the document for approval to the Board.

## Significant accounting judgements, key assumptions and estimates

With the support of the NAO, the committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements, and disclosures were balanced and fair. The main areas of focus during the year are set out below.

Accounting judgments	How the committee addressed those judgements
Valuation of rail network and compliance with regulatory requirements	<p>The revaluation model used to measure the value of the rail network consists of a number of estimates and judgements made both by the company and by the Office of Rail and Road (for example anticipated financial and operational outperformance in the Control Period (CP6). The committee reviewed reports from management on the key estimates and the methodology applied to the revaluation model.</p> <p>The committee also reviewed the work of management and findings of the external auditors in respect of the reasonableness of key judgements and estimates in respect of the forecast for CP6, and the impact of the recent White Paper; and the appropriateness of the associated disclosures in the financial statements.</p> <p>After this review, the committee confirmed the valuation derived from the estimates, key judgments and valuation methodology.</p>

Capital accruals	<p>The estimate of cost of work done is a key judgement in Network Rail's accounts.</p> <p>The additions to property, plant and equipment are valued at an estimate of the cost of work done (COWD) in the year to 31 March 2021. To the extent that the COWD is greater than the invoiced amount, fixed asset accruals are recognised based on expected amounts required to settle contractual obligations.</p> <p>To value the COWD on capital projects appropriately, commercial managers with the appropriate level of experience assess the progress to completion of the project at the expected cost. Both progress and expected costs have elements that are estimates and require accounting judgement.</p> <p>Reports on management's approach to measuring cost of work done were reviewed alongside details of internal validation and the external auditor's report on sample testing.</p>
Risk of management override of internal controls	<p>The independent auditor has focussed attention on this area and provided satisfactory reporting to the committee.</p>
<p>Deferred tax</p> <p>It was considered whether it was still appropriate for Network Rail not to recognise a deferred tax asset in relation to its brought forward tax losses.</p>	<p>The committee agreed not to recognise a deferred tax asset until it was satisfied when it could be exchanged for economic benefits. With the high levels of investment expected for the foreseeable future, the committee saw little prospect that taxable profits would exceed capital allowances, therefore requiring use of tax assets (including losses brought forward) to reduce tax liabilities.</p>
Valuation of investment properties	<p>Investment properties are stated at fair value. The valuations are based on assumptions and estimates that require judgement. The committee agreed the appropriate methodology had been used. The methodology was consistent with prior years and included valuations and additional assistance from external valuation specialists. The valuations were reviewed by management and the external valuation specialists.</p>
Pension assumptions	<p>The group operates defined benefit and defined contribution pension schemes. Valuation of the defined benefit schemes is dependent on certain key assumptions and complex actuarial calculations. External actuaries are therefore engaged to assist in advising on key assumptions and determining the value of the pension obligations.</p> <p>The committee noted the conclusion of the triennial valuation in the year. The committee discussed the key assumptions, including the degree to which these were supported by professional advice from the actuaries. The independent auditor also focussed attention on this area and provided reporting to the committee on this matter.</p> <p>Finally, the committee considered the valuation of the scheme assets, noting the estimation uncertainty associated with Level 3 assets such as private equity holdings. This included a consideration of the work of management and the auditor to take account of movements to the year end, and the focussed work of the auditor in respect of higher risk assets.</p>

The committee is required to review any correspondence received from regulators in respect of financial reporting. There has been no correspondence from the FRC or the ORR in relation to Network Rail's financial reporting during the 2020/21 financial year.

## Committee Effectiveness

The committee completed a self-evaluation effectiveness review, supported by more detailed interviews with committee members and key attendees. The review has shown that the committee was functioning effectively, and no significant areas of concern were raised. The recommendations are being taken forward to improve the work of the committee.

In addition, as part of the Board effectiveness evaluation undertaken in early 2021, feedback was provided on the effectiveness of the committee. No areas of concern related to the committee were raised during this review.

## The approach taken to the appointment of the external auditor

The Comptroller and Auditor General (C&AG), supported by the NAO, was appointed as Network Rail's independent auditor in 2015. In addition to providing an opinion on the group accounts, the C&AG also audits the individual accounts of Network Rail Infrastructure Finance PLC, Network Rail Infrastructure Limited and Network Rail (High Speed) Limited.

Gareth Davies assumed the post of C&AG on 1 June 2019.

PricewaterhouseCoopers (PwC) acted as the independent auditors for the remaining subsidiaries in 2020/21. The obligation to appoint the C&AG as Network Rail's independent auditor is a direct impact of the reclassification of Network Rail as an arm's-length government body and is in line with standard arrangements for other public sector bodies.

The company is, therefore, not in a position to comply with the Competition and Markets Authority's Order or the UK Corporate Governance Code 2018 in respect of tendering prior to the appointment of an auditor and this will remain the company's position for the foreseeable future.

## Objectivity and independence of the independent auditor

The NAO is independent of Network Rail in accordance with the ethical requirements relevant to the audit of financial

statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities.

The committee has put in place safeguards to maintain the independent auditor's objectivity and independence. To enhance independence and in line with established auditing standards, a new senior statutory auditor of the independent auditor is normally appointed every five years, with other key audit principals within that firm rotated every seven years.

The committee has established a policy whereby employment of the independent auditor on other work for the company is prohibited without prior approval by the committee, other than for audit services or tax compliance services. Such requests are unlikely as the NAO does not offer non-audit services. The NAO does carry out value for money assessments for Network Rail, but this does not represent a service to Network Rail as it is performed under statute and on behalf of Parliament.

In 2020/21 the fee for audit services was £0.597m (£0.57m in 2019/20). This includes the NAO's cost of auditing Network Rail Infrastructure Limited, Network Rail Infrastructure Finance plc, Network Rail (High Speed) Ltd, the regulatory accounts and review of interim financial statements of Network Rail Limited and Network Rail Infrastructure Finance plc. It excludes the cost of the audit of some smaller subsidiaries which continue to be audited by PwC.

The fee paid to PwC for auditing the smaller subsidiaries was circa £155k in 2020/21 (£150k in 2019/20).

## Effectiveness of the external auditor

A review of the independent auditor's performance and effectiveness is undertaken as part of the overall effectiveness review of the auditing process. Following the conclusion of the 2020/21 reporting cycle, the auditing process was assessed. The independent auditor was also invited to comment on what worked well and where improvements could be made. The committee was satisfied that the independent auditor was fully effective and performed as expected in discharging its duties and obligations. For the second year, the external audit has been completed in a remote way due to Covid-19 and yet has remained effective with good communication between teams.



## Internal audit

The committee approved the annual internal audit plan and reviewed throughout the year to check alignment with the group's strategic priorities and key risks. At each meeting the director of risk and internal audit updated the committee on any changes to the plan, notable audits, overdue actions, themes, and key issues arising from internal audit's work. Despite restrictions presented by the pandemic, internal audit activities continued throughout the year and the audit programme was updated based on the assessment of risk in what was a changing environment.

In addition to formal risk-based audit, independent reviews have been undertaken to support key programmes and the response to emerging issues. These reviews have included the response to the pandemic, preparations for the UK's exit from the EU, and the progress of our intelligent infrastructure programme.

During the year, a root cause framework has been introduced to identify common themes arising from audit activity. These include:

**Governance:** audits identified cases of less mature governance, risk and control (GRC) frameworks both in design and operating effectiveness – for example, in our audits of post-contract management and stations management.

**Processes and procedures:** audits flagged evidence of gaps that meant the operation of controls could not be demonstrated – for example, in our audits of our joiners-movers-leavers process where system access was not periodically reviewed, and leavers were not removed in a timely manner.

**Assurance and monitoring:** audits found weaknesses in assurance and monitoring arrangements – for example, contract and procurement controls, tunnel evaluations, and monitoring overcrowding incidents at stations.

Where areas for improvement have been identified through audit activity, these are being actively managed and the improvements closely monitored by the committee. Examples of improvements include: the governance, risk, assurance and improvement (GRAI) model that is being embedded to strengthen line of sight between the business strategy and how this is to be achieved, and the revised procurement management framework rolled out in 2020.

The committee approved the internal audit charter which defines internal audit's purpose, authority, responsibility and position within the company.

## Risk management and internal controls

The Board has ultimate responsibility for Network Rail's risk management and internal control systems, but delegates detailed oversight of the function to the committee, which then reports its findings and makes recommendations to the Board. This covers all material controls including financial, operational and compliance controls and risk management systems. The risk management systems and internal controls are designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance that the group's risks are being appropriately managed and mitigated. The delegated responsibilities for risk management and internal control are detailed in 'Role and responsibilities of the committee' on page 112.

The committee reviews progress against agreed action plans to manage identified risks. Detailed oversight of safety related risks is delegated from the Board to the safety, health and environment compliance committee.

Network Rail's approach to risk management and identification, its risk appetite, and an assessment of principal and emerging risks is provided on pages 77 to 86.

In addition to regular updates, the committee reviews the emerging and principal risks that require particular attention. During the year, these were:

- the risk of hostile or malicious acts exploiting vulnerabilities in Network Rail's cyber systems
- the risk of being unable to produce a robust timetable that is both high quality and high performance
- the risk of failing to manage the competence of Network Rail's employees
- the risk of failing to deliver and embed the outcomes and benefits of the Putting Passengers First programme
- the risk of the railway not meeting normal levels of performance during adverse and extreme weather events, today and in the future as a result of climate change
- the opportunity to transform how we operate through the Putting Passengers First programme to create more localised decision making
- there was an exceptional business continuity planning session in relation to Network Rail's Covid-19 response.

## Evaluating the effectiveness of internal control and risk management systems

The committee regularly reviews the corporate risk profile, including the status of mitigating actions, and reviews and approves any changes to the enterprise risk management (ERM) framework, which determines the design, implementation, monitoring and review and identification of risks.

During the year the committee also reviewed and approved changes to Network Rail's risk appetite statements and reviewed the remit of Risk Management to ensure it remained appropriate for the company's strategy. The committee was satisfied that a robust risk process was in place to manage and mitigate our principal risks with appropriate plans and monitoring. Where risks have been identified, appropriate actions are being taken to manage the impact on passengers, customers and the organisation.

The committee had oversight of the process and assessment of the group's prospects to carry on its business under severe but plausible scenarios undertaken in support of the viability statement. Further details of the analysis/ scenario testing for the viability statement can be found on page 87.

## Business ethics

The committee reviews and makes recommendations to the Board on the company's whistleblowing procedures and arrangements for the independent investigation and follow-up of such matters. It also discusses major findings of internal investigations and management's response to them.

In February 2021 the committee assured the Board that the whistleblowing policy and procedures were adequate and effective. The committee was updated on action taken to further enhance the existing framework in the year. This included:

- distributing posters and wallet cards to promote Network Rail's confidential reporting service (known as 'Speak Out')
- testing staff confidence in the whistleblowing arrangements in the biennial employee engagement survey. The results indicate that a large majority of staff have confidence in the arrangements

- an independent review of the whistleblowing policy and procedures, leading to the policy being updated to reflect the review's recommendations. The policy was published in spring 2020
- implementing an upgraded Speak Out system, which included improved wording, question sets and analytics
- publishing an updated Speak Out policy, which included new sections on anonymous vs confidential reporting, how to raise a grievance, and signposting to additional support
- including Speak Out as a company-wide process within the information management system programme.

Network Rail's confidential reporting service and Speak Out policy has been in place since 2012. The Speak Out service is run by an external company on behalf of Network Rail, and all reports undergo an initial review by our counter fraud and investigation services team.

In 2020/21, 387 confidential reports were made to the Speak Out service, which is broadly consistent with the number of reports made in 2019/20, albeit a slightly reduced figure which has been attributed to the pandemic. Each year, on average, 49 per cent of reports made are substantiated and action taken.

Training modules are in place, designed to enhance our people's knowledge and understanding of business ethics, including information about our whistleblowing policy and how to report concerns. To date, the training has been completed by over 41,500 employees.

## Planned activities for 2021/22

In the 2021/22 financial year, the committee will continue its oversight of the risk management and internal control systems and internal audit, monitoring the integrity of the financial statements including the interim statements, and reviewing the external audit process.

The committee will focus on ensuring that the structure and focus of meetings adapt to the devolved nature of the organisation and take into account the key challenges facing the organisation and wider industry. This will include oversight of the risks specific to each new region; continued monitoring of the GRAI; assurance of the capital delivery programme as Project SPEED; is adopted, embedding of the Putting Passengers First programme, and; the company's response to changing passenger demand following the pandemic.

# TREASURY COMMITTEE REPORT

I took over as chair of the committee on 24 August 2020 and I'm pleased to present the committee's report into the key activities undertaken during 2020/21 alongside the work it expects to be doing in 2021/22.



**Mark Bayley CBE,**  
chair, treasury committee  
15 July 2021

Committee members	Formal appointment to the committee	Number of meetings attended during the year
Mark Bayley CBE <sup>1</sup>	May 2020	3/3
Silla Maizey	November 2016	3/3
Michael Harrison <sup>2</sup>	September 2020	2/2
Sharon Flood <sup>3</sup>	September 2014	1/1

1. Mark Bayley was appointed as a director on 11 May 2020 and took over as the chair on 24 August 2020
2. Michael Harrison was appointed to the committee in September 2020
3. Sharon Flood resigned as a director on 23 August 2020

## Committee attendees

The chair of the Board, chief financial officer, group controller, head of treasury, the group general counsel and company secretary attend meetings by invitation.

## Role and responsibilities of the Committee

The terms of reference (ToR) govern the structure and operation of the Treasury Committee, including its delegated responsibilities and authority level. The ToR are reviewed regularly to ensure the activities of the committee align with the needs of the organisation.

The committee's role is to:

- approve or recommend strategies and policies in relation to areas of treasury management including financing, cash and liquidity management and forecasting, regulatory requirements, investor relations, bank relationships, and treasury control and governance policies

- review proposed treasury activities including banking, cash and liquidity management and forecasting, debt management, investment management, and treasury risk management
- review the treasury function's financial reporting and internal control procedures, and
- approve specific transactions within treasury responsibility.

## Principal activities during the year

During the year, the committee received detailed updates on Network Rail's cash and liquidity position, its debt and derivative portfolio, and its intercompany financing arrangements.

The committee continued to monitor the impact on funding caused by the pandemic and the reduction in Network Rail's enhancement budget by £1bn following the Chancellor's Spending Review. The committee also reviewed opportunities for third party investment in Network Rail infrastructure.

The chair provided a summary of the committee's activities and its main discussion points and findings to the next Board meeting and made appropriate recommendations.

Some of the specific topics discussed during 2020/21 were:

### Cash and liquidity

The committee discussed the continued operation of the existing loan facility from the Department for Transport and grant agreements between Network Rail and governments, as well as the effectiveness of Network Rail's banking arrangements.

There was particular focus on the steps taken to mitigate the impact of Covid-19 on Network Rail's cash position, including the early submission of funding requests to reduce potential operational complications, and the acceleration of grant receipts to cover an expected fall in income. The committee also considered the move to support the rail industry supply chain through Covid-19 by agreeing to more favourable supplier payment terms, and the subsequent impact on working capital. Related developments in the wider industry, including Government support packages for train operators, were also reviewed closely.

### Policy, risk and reform

The committee approved a revised policy document which governs Network Rail's treasury-related activities. It reviewed the status of funding and liquidity risk as part of Network Rail's enterprise risk process. The committee discussed various areas of ongoing financial market, regulatory and rates reform which may have implications for how Network Rail manages its treasury activities.

### Open for business update

The committee considered various potential opportunities for third party investment into Network Rail's

telecommunications infrastructure and the potential for purchasing Network Rail's non-traction electricity requirements from renewable generators.

### Treasury

Further matters considered by the committee during the year included:

- 2020/21 actual and forecast cash position
- potential capital restructure of Network Rail subsidiaries
- regular summaries of treasury activities, including:
  - » actual and forecast movements in debt, derivatives and investments
  - » financing costs, and
  - » intercompany financing arrangements within the Network Rail group.

## Planned activities for 2021/22

The committee will continue to monitor the progress of the initiatives underway.

Particular focus will include:

- the potential for future structural changes to the rail industry and their likely impact on Network Rail's financing and treasury activities
- exploring alternative approaches to raising capital to fund rail infrastructure and enhancements
- assessing strategic or corporate finance opportunities that may be proposed to the Board
- monitoring cash flow and funding limits.

# NOMINATION AND REMUNERATION COMMITTEE REPORT

Due to the pandemic 2020/21 was a tough year. It was difficult for our people; for Network Rail and for the rail industry as a whole; for the national and local governments and for the UK economy.

Against this background, I present my report on behalf of the nomination and remuneration committee.

In 2020/21 Network Rail's revenue fell dramatically. We lost income from track access payments and our property assets. So we had to make some very hard decisions, including limiting pay awards and payments under the performance related pay scheme.

In 2021/22 we face difficult decisions again as we begin to understand what our passenger and freight profile will look like.

I would like to welcome Fiona Ross as a member of the committee, and Michael Harrison who becomes a full member of the committee having been an observer since May 2017.

The nomination and remuneration committee is a single committee. However reporting requirements on

remuneration matters means we report on the work of the committee in two parts. The first section looks at the 'nomination' aspects of the committee's work, and the latter section reports the prescribed elements of the directors' remuneration report. There is, of course, some overlap, and this will be highlighted where appropriate.



**David Noyes,**  
chair, nomination and remuneration committee  
15 July 2021

Committee members	Formal appointment to the committee	Number of meetings attended during the year
David Noyes	October 2018	5/5
Michael Harrison <sup>1</sup>	May 2020	3/5
Sir Peter Hendy	October 2015	4/5
Fiona Ross <sup>2</sup>	September 2020	3/3

1. Michael Harrison was appointed to the committee on 11 May 2020

2. Fiona Ross was appointed to the committee on 17 September 2020

\* Ismail Imla was appointed to the Board and committee on 1 April 2021

## Committee attendees

The committee routinely invites the chief executive, the group general counsel and company secretary, the group HR director and the head of reward and benefits to attend meetings. Others may attend for specific items. Meetings are routinely attended by a representative from the Department for Transport.

## Role and responsibilities of the committee

The committee's role is to consider and comment on:

- Board appointments and the induction of new directors
- Board effectiveness
- Board and senior executive remuneration
- any other matter within its remit that it may consider necessary or appropriate.

After each meeting the committee chair briefs the full Board on the committee's work, and makes recommendations as appropriate.

The committee's terms of reference are on our website: [www.networkrail.co.uk](http://www.networkrail.co.uk)

## Principal Nomination activities during the year

During 2020/21 the committee focussed on:

### **Introducing the Board's first diversity and inclusion policy**

Having benchmarked a range of FTSE 100 and transport industry companies, the committee proposed the adoption of a Board diversity and inclusion policy.

The Board adopted that policy in February 2021 and it is available on our website. It supplements our equality, diversity and inclusion policy and our Everyone Matters diversity strategy and implements their aspirations in the context of our senior leaders.

The Board diversity and inclusion policy targets that:

- as a minimum, one third of its directors will be female by the end of the 2021/22 financial year, and
- as a minimum, one of its directors will be from a black, Asian or minority ethnic background by the end of the 2021/22 financial year.

### **The search for new non-executive directors**

The committee oversaw a new in-house approach to searching for and appointing two new non-executive directors. The key aim was to reach a different group of people than might have applied in previous searches.

An open advertising campaign supported a targeted search that saw direct approaches being made to potential applicants. Some of the specific backgrounds against which applicants were researched included technological innovation, climate change impact, diversity and inclusion, the digital future, and passenger insight.

Over 350 applicants were screened against the job description criteria. This resulted in 14 candidates being interviewed by Network Rail's HR team.

From that pool, seven candidates were interviewed by non-executive directors, David Noyes and Fiona Ross. The four finalist candidates were interviewed by Sir Peter Hendy, chair of Network Rail, and Ruth Hannant, then Director General (DfT).

Following the approval of the Secretary of State for Transport and the Prime Minister, Ismail Amla and Stephen Duckworth OBE were appointed to the Board on 1 April 2021.

### **The induction of newly appointed non-executive directors**

As reported last year, Fiona Ross and Mark Bayley CBE became directors on 11 May 2020. As this was during the pandemic lockdown their induction programme was conducted virtually.

A significant amount of background reading material was given to Fiona and Mark. They met with all Board and executive leadership team members, and the group general counsel and company secretary, as well as some senior leaders in key areas of the business. Fiona and Mark also met with representatives from the Department for Transport. In addition, and as part of his induction to the audit & risk committee, Mark met with representatives from the National Audit Office.

Unfortunately, during lockdown we could not do any site visits. However, these are being planned for later in 2021 and 2022.

Michael Harrison was appointed by the Secretary of State as a director on 11 May 2020. Michael was offered an induction programme. However, as he had been attending



Board and some committee meetings since May 2017 it was agreed that a formal induction programme was not needed on this occasion.

As part of their induction, we have given Ismail Amla and Stephen Duckworth reading material and they are meeting with the other directors, executive leadership team and key senior executives. They will attend the site visits we arrange for Fiona and Mark.

#### Commissioning an independent board effectiveness evaluation

The committee commissioned an independent board effectiveness evaluation. Three firms were invited to bid for this work. Following initial discussions with each, two firms submitted proposals. Those proposals were reviewed in line with the pre-determined scoring criteria. The proposal from Manchester Square Partners (MSP) ranked first.

Elaine Sullivan led MSP's review by meeting Sir Peter Hendy, chair of Network Rail. Following which, MSP interviewed all Board directors, the executive leadership team and colleagues at the DfT, Transport Scotland and the ORR.

MSP also reviewed Board and committee papers. MSP attended an Environmental Sustainability committee meeting and a Board meeting to observe the Board in action.

MSP discussed its draft report with Sir Peter Hendy before presenting the report, including recommendations, to the full Board in July 2021.

The key recommendations from MSP's review are on page 102. The committee will monitor progress against delivering these improvements.

## Planned activities for 2021/22

In the year ahead, the committee will continue to:

- monitor progress against the action plan resulting from the board effectiveness evaluation
- oversee the effective induction of new non-executive directors
- manage any relevant matters relating to rail reform and/or workforce modernisation.
- Review talent development strategies to ensure the organisation has the appropriate skills and capabilities in place to execute its accountabilities effectively

For information on the remuneration aspects of the committee's work, please see the directors' remuneration report starting on page 123.

# DIRECTORS' REMUNERATION REPORT

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# ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

I'm pleased to present the 2020/21 director's remuneration report for Network Rail. The nomination and remuneration committee, which has been combined since 2018, is dedicated to the highest standards of disclosure on remuneration and recognises that executive pay is an important issue for a public body. We operate in line with the remuneration requirements which apply to all UK listed companies and the provisions of the UK Corporate Governance Code. The committee follows good governance practice by reviewing the terms of reference every year.

The 2020 report was approved at the Annual General Meeting by our member, the Secretary of State for Transport (SoS), along with the current three-year remuneration policy for executive directors (Policy), which is the framework for how executive directors are paid. This Policy was included in the 2020 directors' remuneration report and can also be found on our website [www.networkrail.co.uk](http://www.networkrail.co.uk).

## Key agenda items for the year

Our annual remuneration report outlines the outcomes for the 2021 financial year in terms of executive remuneration. The key points to note for 2020/21 outcomes are:

- In the light of the financial pressures facing Network Rail, the whole railway, and the public sector generally, as a result of the Covid-19 pandemic, Network Rail's chair, Sir Peter Hendy, and chief executive, Andrew Haines, both took a voluntary reduction in their remuneration of 20% for four months from December 2020 to March 2021.
- A decision on the 2020/21 performance related pay scheme had not been agreed at time of this report. However, in light of the financial pressures mentioned above, the chief executive and chief financial officer declined to accept a performance related payment this year.

The rest of this statement explains how executive remuneration is determined at Network Rail and gives more details on the outcomes of this year.

## Implementation of Policy in 2021

All decisions made by the committee during the year were in compliance with the Policy. The Policy is based on four key principles:

1. **Simple:** the framework should be transparent and simple for all stakeholders to understand.
2. **Competitive and fair:** attracting and retaining leaders of the necessary ability requires remuneration arrangements that are reasonable in the markets that we compete in for talent, and which fairly reflect the appropriate market rates for the skills and experience of the individual. At the same time, we need to ensure value for money for the taxpayer and to reflect our status as a publicly funded body.
3. **Performance and safety:** there should be a performance related element of the package which rewards performance in areas that are most important for our stakeholders. There shouldn't be a reward for failure. The safety of our workforce, passengers and the general public is at the heart of everything we do and must be reflected in the remuneration framework.

**4. Aligned across Network Rail:** where possible, remuneration structures will be aligned across the organisation. All Network Rail employees continue to be eligible for performance related pay, determined using a consistent performance framework across the organisation, although it is not a contractual entitlement.

The remuneration framework for executive directors agreed in 2020 is based on these principles and includes the following elements:

Salary	Salaries are set at a level which reflects the skills and experience of the individual as well as the scope of the responsibilities of the role.
Pension	Participation in pension schemes is on the same basis as other managerial positions at Network Rail.
Performance related pay	Our plan is based on the achievement of stretching annual performance targets, which is aligned to the business scorecard.

## 2020/21 outcomes for executive directors

Business performance is measured through the scorecards. These evaluate performance against key measures and targets that have been agreed with customers and stakeholders. Since 2019/20, the reference for performance related pay (PRP) was changed to a dashboard with simpler, more outcome-focussed set of measures, that Network Rail's stakeholders, especially passengers, would see as a success. The measures on the dashboard and the business scorecards are aligned. PRP for senior employees uses the national dashboard outturn and one quarter (25 per cent) of PRP is also determined by an individual's performance rating. This gives a direct line of sight between the achievement of individual objectives and PRP.

Overall National scorecard performance was below target at 40.4 per cent. The PRP dashboard outturn was slightly lower at 37.6 per cent.

At the time of publication, as we continue to assess the financial and economic consequences of the Covid-19 pandemic, a decision on the PRP outcome for 2020/21 has not been made. However, the chief executive and the chief financial officer have both declined a PRP payment for the year.

Further details of the PRP scheme can be found on page 126.

## National dashboard

There is a distinct set of performance measures set specifically for performance related pay, and whilst these are different from the measures on business scorecards, they have been chosen to closely mirror overall business performance. The measures on the dashboard represent the key strategic themes of train service delivery, safety, efficiencies and people.



**David Noyes,**  
chair, nomination and remuneration committee  
15 July 2021

# ANNUAL REMUNERATION REPORT

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013. Where indicated, some of the disclosures in these sections have been audited.

## Single total figure of remuneration for 2020/21 (audited)

The table below summarises all remuneration for the executive directors in respect of 2020/21 (and the prior year comparative). Further discussion of each of the components is set out on the pages which follow.

£'000	Salary		Benefits <sup>1</sup>		Pension <sup>2</sup>		Performance Related Pay (PRP)		Total	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
<b>Jeremy Westlake</b>	373 <sup>3</sup>	371	12	12	33	34	0 <sup>5</sup>	0	417	417
<b>Andrew Haines OBE</b>	554 <sup>4</sup>	593	3	3	0	0	0 <sup>5</sup>	0	557	595

1. Benefits include car allowance, private medical cover, any annual travel subsidy, life assurance and relocation.

2. Pension includes the value of all pension benefits receivable in respect of the relevant year. This includes any supplementary cash allowance and a value from participation in the defined benefit or defined contribution pension arrangements or allowances for those who have opted out of their respective pension arrangements in the relevant year (calculated in accordance with the methodology prescribed by the Regulations). Further details of these pension benefits are set out in the pension section on page 127.

3. Jeremy Westlake's salary is slightly higher in 2020/21 as there was an additional working day in the financial year.

4. In light of the financial pressures facing Network Rail, the whole railway, and the public sector generally as a result of the Covid-19 pandemic, Andrew Haines' took a voluntary reduction in remuneration of 20% for four periods from December 2020 to March 2021.

5. In the light of the financial pressures arising from the Covid-19 pandemic, the executive directors declined to receive a payment under the PRP 2020/21 scheme.

## Pay Ratios (audited)

The Government announced new legislation for employers to publish their pay ratios from 2020. The pay ratio is the gap between the chief executive and the 25th, 50th and 75th percentile of employees - using the single figure disclosed in remuneration reporting in the table above. A historical record will be published incrementally to a 10-year period moving forward.

For transparency and good governance, the nomination and remuneration committee decided to publish the pay ratio information a year early in the 2018/19 report and to

also publish the information from 2017/18 so that it could be compared.

There are three calculation methodologies to choose from:

- Calculate total remuneration for all employees and take the percentiles to calculate the pay ratio against the chief executive single figure total remuneration.
- Using existing pay data i.e. gender pay gap reporting, take the 25th, 50th and 75th percentiles and then calculate the total remuneration for these and compare against the chief executive single figure total remuneration.

C. Same as option B but using other recent pay data.

The nomination and remuneration committee decided that option B, using existing gender pay gap reporting, would be used. This data already exists and is in the public domain, therefore more familiar and easier to obtain.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2017/18	Option B	25.1:1	20.0:1	16.2:1
2018/19 <sup>2</sup>	Option B	20.9:1	16.1:1	13.3:1
2019/20 <sup>3</sup>	Option B	18.0:1	14.3:1	11.9:1
2020/21	Option B	17.5:1	14.3:1	12.8:1

1. PRP has been removed from the calculations for all years for consistency, as a decision on PRP for employees for 2020/21 was not made at the time of this report.
2. Change of chief executive during the year. Pay ratio based on Mark Carne CBE and Andrew Haines OBE's combined single figure total for 2018/19
3. Andrew Haines OBE's single figure total was used for 2019/20.

When taking the employee data for the 25th, 50th and 75th percentile, the total remuneration figure has been calculated based on an office worker at these percentiles rather than other employee groups. Using a front-line or operations worker would have reduced the ratio as these types of roles can be eligible for overtime, allowances and shift payments, all of which would have increased the comparator pay and decreased the ratio. The additional payments are not guaranteed and therefore likely to change each year. The total remuneration figure for an office worker at these percentiles is likely to be lower and also less variable year on year. It is therefore considered to be a better comparator.

Whilst the pay ratio for the 25th percentile has decreased since last year, this has not been the case for the median and 75th percentile. The employees selected in these percentiles were in management roles who were not given a pay award during 2020/21, which has impacted the pay ratios in comparison to the previous year.

## Executive director changes

There have been no changes this year.

## Incentive plan 2020/21 – annual performance related pay (audited)

During the year, two directors were eligible to participate in this scheme; Jeremy Westlake and Andrew Haines OBE. The maximum potential annual performance related pay award for Jeremy Westlake in 2020/21 was 20 per cent of salary. Andrew Haines OBE's maximum potential annual performance related pay award was nine per cent. Stretching performance targets were set at the start of the year in the context of the PRP dashboard. The approach for performance related pay is aligned across the business, including executive directors. The PRP dashboard outturn, which is closely related to the business scorecard, determines the percentage pay-out against the maximum award. For 2020/21, one quarter (25 per cent) of PRP was based on an individual's performance rating, and

each rating carried a different percentage weighting. For example, a 'good' performance rating will have an 11.25 per cent contribution to the overall PRP.

Performance against the national scorecard is summarised on pages 26 to 29. Our National scorecard performance was below target at 40.4 per cent. We benefited from the reduced timetable – we had fewer passengers and ran fewer trains. This resulted in better than planned train performance, and it also allowed us to finish ahead of our budgeted renewals work. Overall performance was impacted by the workforce fatalities we have had this year, coupled with the impact of the Stonehaven derailment. Due to Covid-19, no network wide passenger satisfaction



surveys were undertaken in the year and as a result the passenger satisfaction measure was set at zero per cent. The Performance-Related Pay (PRP) dashboard outturn is slightly lower than our National scorecard at 37.6 per cent. This is partly due to our performance against two index measures not captured in the PRP dashboard; to measure our environmental sustainability and how we handle complaints, offset by the weighting we have given to the financial performance in the PRP dashboard. In addition, each year the safety, health and environment committee

(SHEC) considers the overall outturn from a safety perspective and decides whether to recommend any further adjustments to reflect safety performance.

Having reviewed the outturns of the safety measures and the overall safety performance, the committee concluded that no further adjustments were required besides setting the Passenger Safety measure to zero (agreed earlier in the year to recognise the impact of the Stonehaven derailment and associated fatalities).

## Pension (audited)

1. Executive directors are eligible to participate in one of the Network Rail defined benefit pension schemes or the defined contribution pension scheme on the same basis as other employees.
2. Under the existing executive pension policy, Jeremy Westlake is entitled to an allowance in lieu of pension on the same basis as other employees of Network Rail, subject to the discretion of the group HR director. This allowance is equivalent to the employer's pension contributions otherwise payable, minus an adjustment for the cost of providing continued life assurance and the employer National Insurance Contributions payable. Andrew Haines OBE was not eligible to an allowance in lieu of pension as part of his appointment.
3. Previously, executive directors received an additional pension allowance in the form of a cash supplement based on a percentage of their earnings above the notional earnings cap (£170,400 for 2021/21 tax year and previously £166,200 for 2019/20). This policy no longer applies to new appointments.

The table below sets out details for executive directors for 2021 in respect of all Network Rail pension benefits, split between the defined benefit and defined contribution/additional allowance. The value shown in the final column of this table is included as the pension column in the single total figure of remuneration on page 125.

	Defined benefit schemes				Other pension arrangements <sup>4</sup>		
	Normal retirement age <sup>2</sup>	Accrued pension at 31 March 2021 £000	Increase in accrued pension (net of inflation) during 2020/21)	Transfer value of accrued pension at 31 March 2021 £000 <sup>3</sup>	Value included in single figure table (A) £000	Cash salary supplement or contribution to defined contribution scheme (B) £000	Total pension value reported in single figure table (A+B) £000
<b>Andrew Haines OBE<sup>1</sup></b>	–	–	–	–	–	–	–
<b>Jeremy Westlake</b>	–	–	–	–	–	33	33

1. Andrew Haines OBE does not receive any pension contribution nor cash in lieu.

2. The normal retirement age shows the age at which the director can retire without actuarial reduction.

3. Transfer values as at 31 March 2021 have been calculated in accordance with the 'Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008'.

4. For the defined benefit schemes, the value shown in the single figure table (A) has been calculated in accordance with the regulations by applying a multiplier of 20 to the increase in accrued pension (net of inflation) during the year. For the additional pension allowance (B), the value shown is the gross cash allowance in the year. The value shown in the single figure table is the sum of A and B.

## Non-executive directors' fees (audited)

Under the framework agreement the SoS sets the pay for the chair and non-executive directors of Network Rail. The fees for the non-executive directors were last reviewed in 2016 for new appointments and were decreased at the time.

The table below summarises the remuneration for the non-executive directors for 2020/21.

	2020/21		2019/10	
	Fees £000	Benefits £000	Fees £000	Benefits £000
<b>Rob Brighthouse<sup>1</sup></b>	59	–	50	–
<b>Sharon Flood<sup>2</sup></b>	28	–	71	–
<b>Sir Peter Hendy CBE<sup>3</sup></b>	296	–	335	0
<b>Silla Maizey</b>	40	–	40	–
<b>David Noyes<sup>4</sup></b>	50	–	42	–
<b>Mike Putnam<sup>5</sup></b>	50	–	44	–
<b>Michael Harrison<sup>6</sup></b>	0	–	–	–
<b>Mark Bayley</b>	46	–	–	–
<b>Fiona Ross<sup>7</sup></b>	36	–	–	–

1. Rob Brighthouse's fees were higher for 2020/21 as he became the Senior Independent Director.

2. Sharon Flood resigned as director on 23 August, having completed two three-year terms.

3. In the light of the financial pressures facing Network Rail, the whole railway, and the public sector generally, as a result of the Covid-19 pandemic, Sir Peter Hendy took a voluntary reduction in remuneration of 20% for four months from December 2020 to March 2021.

4. David Noyes' fees were higher in 2020/21 as he became Chair of the Nominations and Remuneration Committee.

5. Mike Putnam's fees were higher in 2020/21 as he became Chair of the Safety, Health & Environmental Compliance Committee.

6. Michael Harrison was appointed on 11 May 2020 as the Secretary of State's designated Non-Executive Special Director. It is an unpaid appointment for three years.

7. Fiona Ross joined on 11 May 2020.

## Payments to former directors (audited)

There were no payments made to former directors in 2020/21.

## Payments for loss of office (audited)

There were no payments for loss of office to executive directors in 2020/21.

## Outside appointments

Executive directors need to seek approval from the committee to retain any fees for external non-executive directorships.

Andrew Haines OBE is a director of the Rail Delivery Group and does not receive fees for this appointment, although he does have a travel pass that comes with the directorship, which allows him free rail travel for personal and business use.

Jeremy Westlake did not have any outside appointments.

## Additional disclosures

The following disclosures are required by the regulations to provide additional background for considering executive remuneration.

### Percentage change in remuneration

The table below shows the percentage change in the salary, benefits and annual performance related pay (APRP) of the chief executive and all Network Rail employees from 2019/20 to 2020/21.

For the table below, the change in the value of each of the components for the chief executive has been calculated using the data disclosed in the relevant columns of the single total figure of remuneration table shown on page 125.

	Chief executive	All employees
<b>Salary<sup>1</sup></b>	-7.5 % <sup>2</sup>	0 % <sup>3</sup>
<b>Benefits</b>	0 %	0 %
<b>Performance related pay<sup>4</sup></b>	0 %	0 %

1. Based on salary reviews effective on either 1 January or 1 July 2021.

2. Andrew Haines took a pay cut for four pay periods during 2020/21 due to the economical and financial challenges resulting from the coronavirus pandemic.

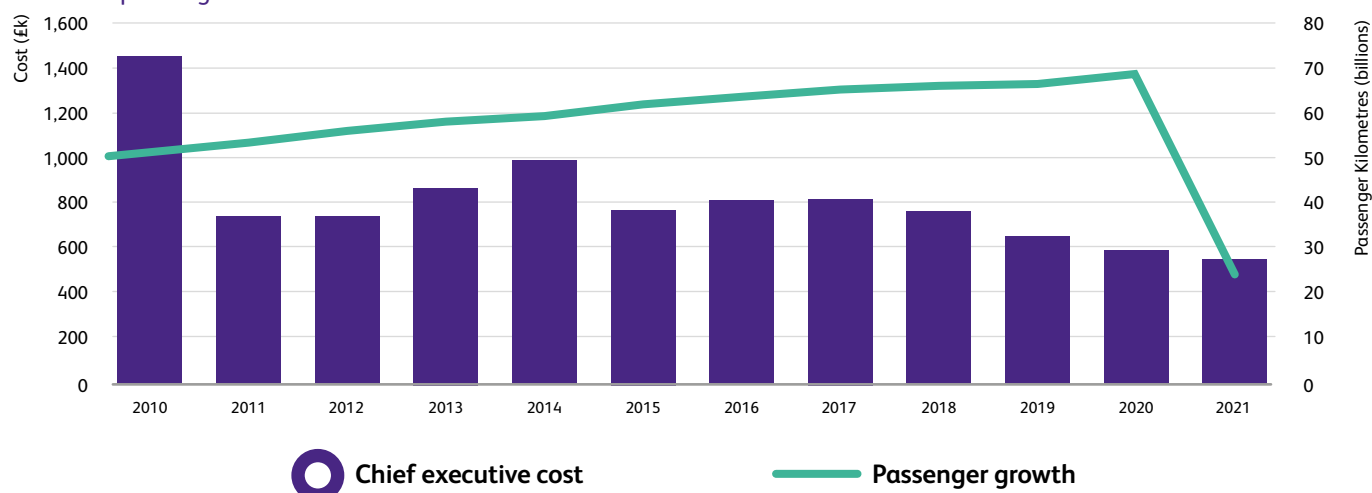
3. There was no pay award given to employees at the time of this report.

4. Performance related pay is based on any changes to maximum opportunity

### Performance graph and table

Under the regulations, companies need to include a chart showing historic total shareholder return (i.e. share price and re-invested dividends) over an eight-year period alongside a table that shows the remuneration paid to the chief executive over the same period. As Network Rail does not have shares, or a share price, we have used the metric of 'passenger kilometres travelled' instead.

#### Number of passenger kilometres travelled



	Chief executive	Single total figure of remuneration	PRP (% of vesting)
2020/2021	Andrew Haines OBE	£557k	0 %
2019/2020	Andrew Haines OBE	£595k	0 %
2018/2019	Andrew Haines OBE	£371k	0 %
	Mark Carne CBE	£285k	N/A
2017/2018	Mark Carne CBE	£769k	54.6 %
2016/2017	Mark Carne CBE	£820k	37 %
2015/2016	Mark Carne CBE	£811k	34.7 %
2014/2015	Mark Carne CBE	£771k	0 %
2013/2014	Mark Carne CBE	£200k	20.9 %
	Sir David Higgins	£790k	N/A
2012/2013	Sir David Higgins	£836k	28.6 %
2011/2012	Sir David Higgins	£736k	0 %
2010/2011	Sir David Higgins	£161k	N/A
	Iain Coucher	£528k	N/A

- Iain Coucher was appointed chief executive on 1 August 2007. He resigned on 31 October 2010.
- Sir David Higgins was appointed chief executive on 1 February 2011. He resigned on 28 February 2014. Mark Carne CBE was appointed chief executive on 24 February 2014. He retired on 4 September 2018. Mark Carne CBE also voluntarily declined any performance related pay in 2018.
- Andrew Haines OBE was appointed chief executive on 14 August 2018. He declined any performance related pay in 2019. N/A indicates that there was no eligibility for an award vesting in respect of the relevant year.
- The combined single total figure of remuneration for Andrew Haines OBE and Mark Carne CBE is £655k.

## Relative importance of spend on pay

Under the regulations, companies need to illustrate the relative importance of spend on pay, by disclosing the total employee remuneration and returns to shareholders (i.e. dividends and share buybacks) in the reporting year and the prior year. Network Rail is a not-for-dividend company so cannot provide data on returns to shareholders. Therefore, other key Network Rail metrics have been used in the table below to show employee remuneration in the context of overall business activities.

	2020/21	2020/19	Change (%)
<b>Total employee remuneration</b>	£2,802m	£2,715m	3.2
<b>Total expenditure</b>	£10,829m	£9,392m	15.3

## Consideration of directors' remuneration – remuneration committee and advisers

The committee during the year was made up of the following independent non-executive directors: David Noyes, Sir Peter Hendy CBE, Fiona Ross and Michael Harrison.

The group general counsel and company secretary is secretary to the committee. The committee is also supported by the group HR director, and senior reward manager. The chief executive attends meetings when invited by the committee. No individual is present when their own remuneration is being discussed.

In line with best practice, the committee seeks independent external advice when needed. During the year, the committee retained Deloitte LLP to provide independent

advice on executive remuneration. Deloitte was chosen by the committee in 2012 following a selection process undertaken by the committee. The committee is satisfied that the Deloitte engagement partner and team provide fair and independent remuneration advice to the committee and do not have any connections with Network Rail that may affect this. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). Deloitte did not provide any advice to the committee during 2020/21, and as such no fees were payable in this respect.

## Key remuneration committee agenda items during the year

May 2020	<ul style="list-style-type: none"> <li>• Review of the Executive directors' and executive leadership team's annual pay award 2020</li> <li>• Options for performance related pay for 2019/20</li> <li>• Review of senior leavers</li> </ul>
September 2020	<ul style="list-style-type: none"> <li>• Roles within Network Rail over the HM threshold</li> <li>• Appointment process to replace retiring region managing director/senior executive</li> <li>• Appointment process for new non executive director</li> <li>• Proposed Board diversity and inclusion policy, specifically gender and ethnicity targets</li> <li>• Approval of Board committee memberships</li> <li>• Agreement to undertake an independent Board effectiveness evaluation</li> <li>• Approval of approach for performance related pay for 2019/20</li> </ul>
October 2020	<ul style="list-style-type: none"> <li>• Reform of the performance rated pay scheme for 2020/2021</li> <li>• Investment in active talent management</li> <li>• Effective workforce engagement</li> <li>• Roles within Network Rail over the pay threshold</li> </ul>
February 2021	<ul style="list-style-type: none"> <li>• Options for performance related pay schemes for 2020/2021 and 2021/22</li> <li>• Review of Network Rail's senior executive reward strategy</li> <li>• Update on non executive directors' re appointment and recruitment</li> </ul>

## Committee members

Member	Formal appointment to committee	Number of meetings attended during the year
David Noyes	October 2018	5/5
Michael Harrison <sup>1</sup>	May 2020	3/5
Sir Peter Hendy CBE	July 2015	4/5
Fiona Ross <sup>2</sup>	May 2020	3/5

1. Michael Harrison was appointed to the committee on 11 May 2020

2. Fiona Ross was appointed to the committee on 17 September 2020

\* Ismail Imla was appointed to the Board and committee on 1 April 2021

## Role of the remuneration committee

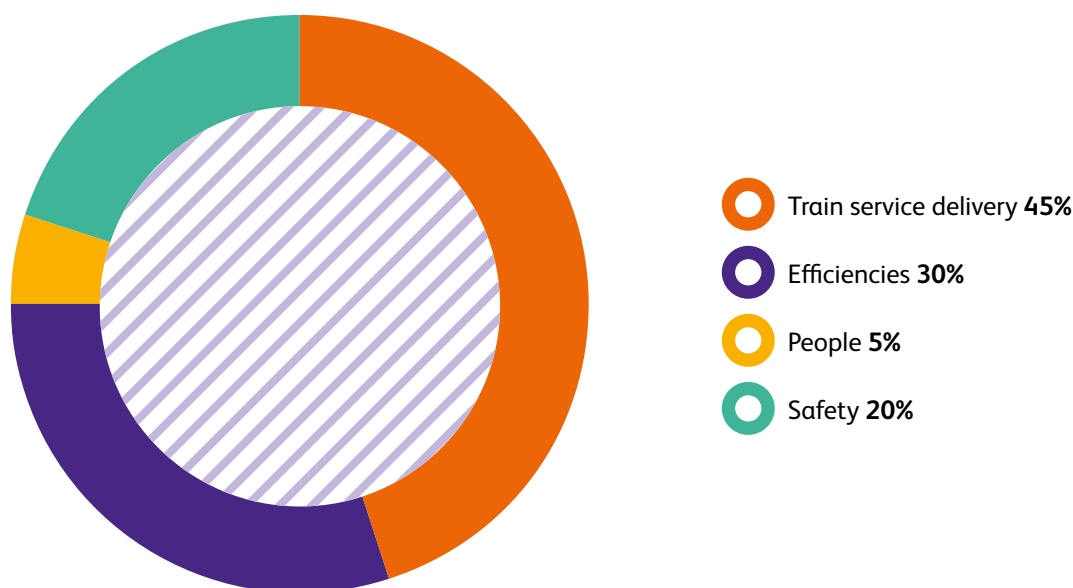
In 2018, the nomination and remuneration committees were combined to form one committee. The committee continues to cover policy, governance and decision-making in relation to all senior employees with salaries above the pay threshold.

The full terms of reference of the committee can be found on the website: [www.networkrail.co.uk](http://www.networkrail.co.uk).

## Pay for performance structure for executive directors – aligned to what is important for customers

The PRP arrangements for executive directors and other employees are aligned to business performance and based on the national dashboard outturn.

Since 2019/20, Network Rail moved from route/region/function scorecards to a dashboard with a set of output-focussed measures which better reward delivery. Reducing the number of measures from previous years enables sufficient weightings to each measure so that it is significant enough to reward success. The national dashboard has been designed to ensure our customers and, through them, our passengers are at the heart of how we operate.



## National Dashboard for 2020/21

The dashboards align to four strategic themes. There are nine measures, carefully weighted to incentivise and reward success, whilst giving an appropriate weighting to important areas such as train service delivery and safety (which is measured through Train Accident Risk Reduction for passengers and Fatalities and Weighted Injuries for Workforce Safety). The dashboard is shown in the table on the next page.



Strategic Themes	Measure	Weighting	Target
Train service delivery	<b>On Time</b> The percentage of Recorded Station Stops called at on time (early or <1min late)	12.5 %	65.1 %
	<b>Passenger Satisfaction</b> The percentage of passengers surveyed who were satisfied with their overall journey.	20.0 %	83.5 %
	<b>Freight Delivery Metric (FDM)</b> The percentage of commercial freight trains that arrive at planned destination within 15 minutes of scheduled time. Freight trains are only considered to have failed FDM where a delay is caused by Network Rail.	7.5 %	94.0 %
	<b>Composite Reliability Index (CRI)</b> A measure of the short-term condition and performance of our assets including track, signalling, points, electrification, telecoms, buildings, structures and earthworks. The index shows the total percentage improvement in asset reliability compared to the end of the previous Control Period.	5.0 %	1.1 %
Efficiencies	<b>Financial Performance Measure (FPM)</b> An assessment of how Network Rail have performed compared to the financial targets set out in the CP6 Business Plan. The measure is an aggregation of the three individual FPM measures from prior years (P&L, Renewals and Enhancements).	20.0 %	£0m
	<b>Enhancement Milestones</b> The number of milestones completed ahead of time or on time, as a percentage of all milestones planned for delivery in the year.	10.0 %	90.0 %
People	<b>Employee Engagement</b> An index representing the proportion of employees surveyed who responded favourably to key questions on engagement.	5.0 %	61.0 %
Safety	<b>Workforce Fatalities and Weighted Injuries (FWI)</b> An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10.0 %	0.059
	<b>Passenger Safety (TARR)</b> Measures achievement of the key milestones and metrics to reduce train accident risk. TARR is made up of milestone targets and volume targets, both of which have different achievement weightings.	10.0 %	90.0 %

Regional dashboards include measures which match each regions' responsibilities along with universal measures such as safety and financial performance. Local scorecards are still used to manage business performance at a local level, but they are not linked to PRP.

In addition, no payment will be made in respect of any performance measure which fails to exceed the minimum level of performance (worse than target threshold) and evidence of under reporting against safety would result in the outcome of the safety measures being reviewed and reducing performance accordingly, including potentially to zero.

One quarter (25 per cent) of PRP will be determined by an individual's performance rating. This provides a direct line of sight between the achievement of individual objectives and PRP. For executive directors and employees aligned to the national dashboard, the figure below demonstrates how individual performance-related pay is calculated:



# DIRECTORS' REPORT

The directors present their annual report and the audited accounts for the year ending 31 March 2021.

Disclosures on business performance and activities, future business developments and risk management are contained in the strategic report (pages 10 to 88) and corporate governance report (pages 89 to 136).

The company is limited by guarantee, having no share capital, so there are no share disclosures in this report.

## Directors

The directors who served during the year and held office at the date of signing the annual report and accounts are detailed on pages 90 to 93.

## Directors' conflicts of interest

In accordance with company law and the company's articles of association, the directors have the power to authorise any matter which would or might otherwise constitute or give rise to a direct or indirect conflict of interest. However, the authority can only be exercised if a director has declared their actual or potential conflict of interest to the Board. The directors have a continuing obligation to update any changes to their conflicts of interest. Further details about directors' conflicts of interest can be found on page 103.

## Branches

The company's subsidiary, Network Rail Consulting Limited, has established branches in Dubai and Saudi Arabia; and subsidiaries in Australia, Canada and the United States of America (USA).

## Contracts of significance

There were no contracts of significance existing during 2020/21 to which any Network Rail undertaking was a

party and in which a director of the company is or was materially interested (as defined by Listing Rule LR 9.8.4R).

## Political donations

It is Network Rail's policy not to make political donations or to incur political expenditure in the UK and the EU. No political donations were made, and no political expenditure was incurred during the year (2019/20: £nil).

## Investment in research and development

Technology and innovation is fundamental to Network Rail's success in Control Period 6 and beyond.

During the year the group charged £50m to the income statement (2019/20: £30m) on research and development.

Further information on the cost of research and development can be found in Note 2 on page 157.

## Engagement with our people, passengers and stakeholders

Further information on our engagement with our people, passengers and stakeholders can be found in How we engage with our Stakeholders on pages 24 and 25. This sets out the actions that Network Rail has taken this year to:

- build the views of our people into decision-making processes and encourage their active involvement in the company's performance
- understand what's important to railway users and provide the service they expect
- work with industry partners to operate a world-class railway
- make a positive contribution to local communities and the environment
- support U.K. governments and our supply chain partners to promote economic growth and develop a railway fit for the future.

## Financial disclosures

Disclosures relating to the group's use of financial instruments, financial risk management objectives and policies of the company, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used; its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found under Note 25, pages 183 to 188.

Particulars of important events affecting the group since the financial year end and an indication of likely future developments can be found in the chief financial officer's (CFO) statement, pages 30 to 34.

## Directors' statement of responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose, with reasonable accuracy, at any time the financial position of the company and the group. This enables them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group, and

hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and distribution of financial statements may differ from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the company's website.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for its member to assess the company's performance, business model and strategy.

Each of the directors in office at the date of this report, whose names and functions are listed on pages 90 to 93 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group and the undertakings included in the consolidation taken as a whole
- the management report is incorporated into the strategic report and directors' report for the purposes of the Disclosure and Transparency Rules (DTR 4.1.8R). It includes a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the group faces.

## Independent auditor

Resolutions for the re-appointment of the current independent auditor, the National Audit Office, who also acts for the Comptroller and Auditor General, and to authorise the audit and risk committee (ARC) to determine the independent auditor's remuneration, will be proposed at the forthcoming annual general meeting. The notice of meeting is enclosed, together with explanatory notes, in a pack with this report.

## Disclosure of information to the independent auditor

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit

information of which the company's independent auditor is unaware

- the director has taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the company's independent auditor is aware of that information.

## Going concern statement

The group's business activities, together with the factors likely to affect its future development, performance and position and the group's principal risks and uncertainties are set out in the strategic report section, pages 10 to 88. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the CFO's review, pages 30 to 34. Note 25 to the accounts on page 183 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The viability statement on page 87 sets out a longer-term assessment than this going concern statement.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast funding requirements and other key financial ratios, including those relevant to our network licence. Analysis is undertaken to understand the resilience of the group and its business model to the potential impact of the group's principal risks, or a combination of those risks. This analysis takes account of the mitigating actions realistically to be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 77 to 86, are disclosed in detail.

Consequently, the directors believe that the group is well placed to manage its business risks.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future.

For this reason and on the basis of the above, the directors consider it appropriate for the group to adopt the going concern basis in preparing its annual report and accounts.

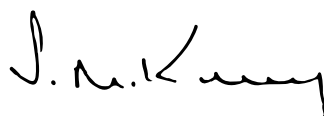
## Post Balance sheet events

Network Rail's response to the coronavirus pandemic has been discussed throughout the report, including the chief executive's report on page 12 and the risk management report on pages 77 to 88. Regional responses to the crisis have also been highlighted on pages 36 to 55.

The Williams-Shapps Plan for Rail and its plans to reform the rail industry were published after the balance sheet date. This proposes that, commencing in late 2023, a new public body, Great British Railways, will integrate the railways, owning the infrastructure, collecting fare revenue, running, and planning the network, and setting most fares and timetables. It is planned that Network Rail will be absorbed into the public body to bring about single, unified, and accountable leadership for the national network. At this stage it is not likely that this reform will involve the winding up of Network Rail Limited but in any event Great British Railways will assume the existing functions of Network Rail Limited as well as have a wider range of powers and functions. The transformation programme is dependent on further activities including legislation and will take time to fully deliver.

The change in corporation tax rates, to 25 % from 19 % (effective from April 2023), was substantively enacted in the Finance Bill 2021 after the balance sheet date. It is estimated that this will increase the deferred tax provision by £1.0bn and will be reflected in next year's accounts.

Aside from the above, as at the date of signing these financial statements there have not been any significant post balance sheet events, whether adjusting or non-adjusting.



**Stuart Kelly,**  
Group general counsel and company secretary  
15 July 2021