Network Rail Limited

Annual report and accounts 2021

Network Rail Limited's

Annual Report and Accounts 2021

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by The Secretary of State for Transport
by Command of Her Majesty
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Commentary in this Annual Report & Accounts is also designed to satisfy the Annual Return requirements as defined within our network licence.The Annual Return data tables are available on our website at: **https://www.networkrail.co.uk/who-we-are/publications-and-resources/regulatory-and-licensing/annual-return/**

OUR YEAR IN NUMBERS

The numbers below are important to show our financial and non-financial performance. We report numbers for both 2019/20 and 2020/21. For 2019/20, only three weeks were affected by the coronavirus pandemic. However, the whole of 2020/21 was impacted by the pandemic.

Revenue in the year

2020/2021	2019/2020
£9,618m	£8,099m

Operating costs (before depreciation & amortisation)

2020/2021	2019/2020
£4,479m	£3,924m

Profit before tax

2020/2021	2019/2020
£1.6bn	£375m

Net debt

2020/2021	2019/2020
£54.7bn	£54.6bn

Capital expenditure

2020/2021	2019/2020
£5,928m	£5,176m

Environmental sustainability

2020/2021	2019/2020
9.8 %	5.7 %

% reduction in greenhouse gas emissions against our 2018/19 baseline. Numbers do not include traction carbon reduction, which is not part of Network Rail's direct emissions.

Passenger km travelled (bn)

2020/2021	2019/2020
12.5km	66.8km

Passenger trains on time Public Performance Measure

2020/2021	2019/2020
93.4 %	86.2 %

Freight moved Net tonne kilometres

2020/2021	2019/2020
15.2bn	16.6bn

Freight trains on time Freight Delivery Metric

2020/2021	2019/2020
95.2 %	93.4 %

Lost time injury frequency rate

2020/2021	2019/2020
0.277	0.290

Means time lost to injuries and fatalities among Network Rail staff and contractors. A lower figure represents a better performance.

Network Rail's employee engagement index

June 2021 pulse survey	July 2020 pulse survey
58 %	66 %

KEY IMPROVEMENTS TO THE NETWORK

North West & Central

HS2 On-Network Works (ONW)

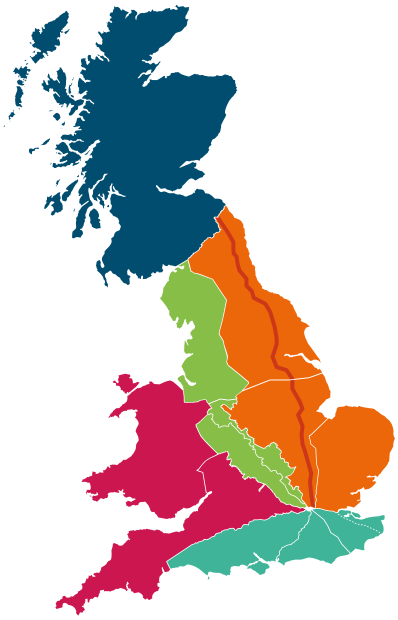
Location: Euston, Old Oak Common, Water Orton

Ongoing work to prepare for construction, and connection to the existing rail network, of HS2 between London Euston and Birmingham Curzon Street. HS2 will bring much-needed additional capacity to the West Coast.

Trans-Pennine Route Upgrade

Location: Hope Valley - Manchester-Leeds-York / Manchester to Sheffield

Work to improve frequency, reliability and speed of services between Manchester, Leeds and York (TRU). Hope Valley upgrades will also remove bottleneck to allow passenger services to overtake freight trains.



Scotland's Railway

Kintore Station

Location: Kintore, Aberdeenshire

The new station will reconnect Kintore to the rail network for the first time since the original station closed in the 1960s.

East Kilbride Electrification

Location: East Kilbride, South Lanarkshire

Electrification will transform the service we provide to our customers and offer greener, more environmentally friendly travel options to the public.

Wales & Western

Great Western Electrification, Severn Tunnel (electric operation)

Location: Severn Tunnel. South Gloucestershire, England to Monmouthshire, Wales

Electrification allows journeys from Cardiff to London, realising environmental and journey time improvements for passengers.

South West Rail Resilience Programme, Phase 1 - Marine Parade Dawlish

Location: Dawlish, South Devon

Reducing the number of weather induced line closures allows us to run more of our planned services.

Southern

Upgrading Gatwick Airport Station

Location: Gatwick Airport, West-Sussex, England

Widening platforms reduces crowding and improves accessibility.

Upgrading Sandwich Station

Location: Sandwich, Kent, England

Improvements at Sandwich station, including longer platforms and a new footbridge, were largely third party funded and well received by stakeholders.

Eastern

East Coast Main Line upgrade

Location: Werrington, Cambridgeshire

A new tunnel under the East Coast Main Line will separate passenger and freight services – delivering better reliability for millions of passengers every year.

Horden Station

Location: Horden, County Durham

A new station was built in just six months, restoring services to Horden for the first time in nearly 60 years.

NETWORK RAIL'S STORY

Vision, values, strategy, performance.

Network Rail exists to get people and goods where they need to be and to support our country's economic prosperity. We do this by running a safe, reliable and efficient railway that serves our customers and communities. To be successful, we need to be a company that is on the side of passengers and freight users. This is why we developed our vision of Putting Passengers First.

OUR VISION

Putting Passengers First

Our regions make sure that their services and decisions meet the needs of the passengers, customers and communities they serve.

OUR VALUES

Our values – how we behave – allow us to deliver our vision. We empower our people to always be safe, care about the railway, its users and each other, and put teamwork at the heart of all that we do. This means that we Put Passengers First.

STRATEGIC PRIORITIES

The key elements of Putting Passengers First are grouped under our six strategic priorities:

- **Safety**
- **Train Service Delivery**
- **Efficiencies**
- **Sustainable Growth**
- **Customers and Communities**
- **People**

PERFORMANCE

Our balanced scorecard allows us to measure how well we're doing against our strategic priorities.

The linkages between our vision, values, strategic priorities and performance are explained more in About Network Rail on page 19.

OPERATING MODEL

In 2020/21 we continued our journey to become more customer focussed and service driven. We've introduced a new operating structure to bring us closer to the passengers, customers and communities we serve. We're now in better shape to meet the changing needs of passengers and freight users and respond to external changes like coronavirus and future rail industry reform.

We can deliver a more sustainable, efficient, joined-up railway which is on the side of passengers and freight users.

Our operating model reflects that we all work directly for the benefit of passengers and freight users, or we work to support those that do.

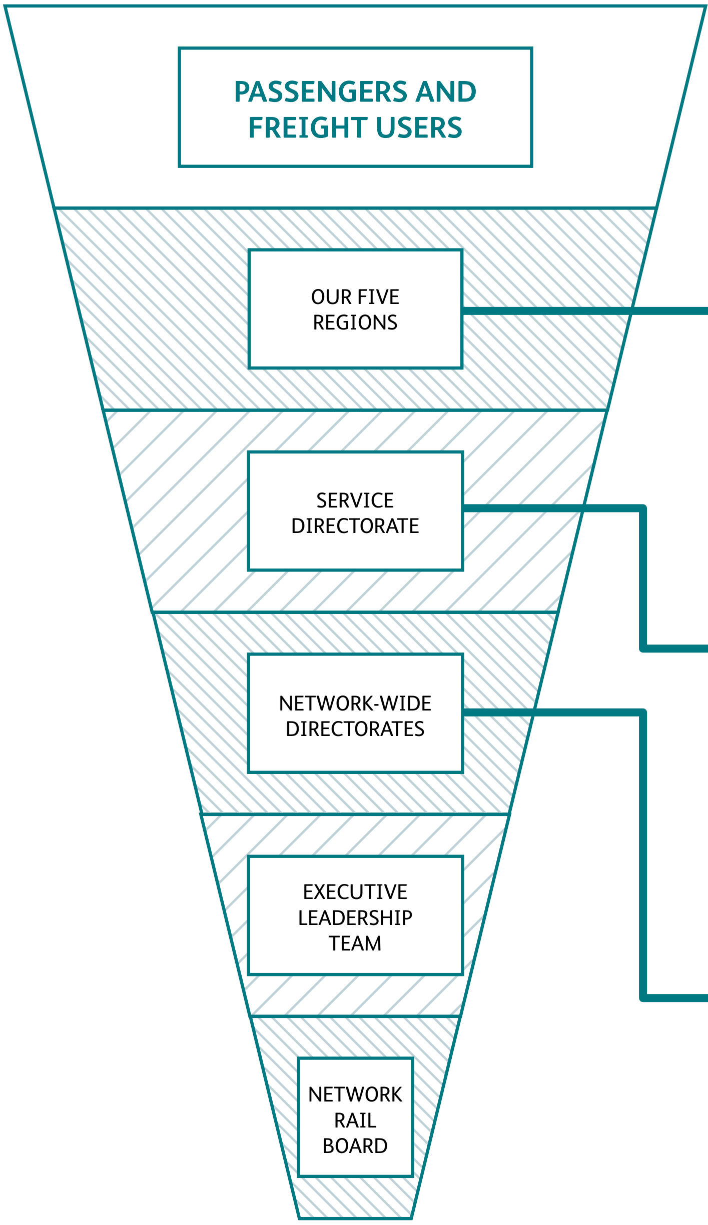
Our funding comes from:

- UK Government
- Transport Scotland
- Charging train operators to use our track
- Income from our property assets

We are held to account by:

- The Office of Rail and Road - our economic and safety regulator
- UK Government: Department for Transport, HM Treasury
- Transport Scotland

Our key stakeholders include (in no particular order): lineside neighbours, Samaritans, national and local government, our supply chain, our people, trades unions, Transport Focus, British Transport Police, industry partners.



Eastern; **North West & Central**; **Scotland's Railway**; **Southern**; **Wales & Western** - make sure services and decisions will meet the needs of their passengers, customers and communities:

These regions are sub-divided into 15 routes, whose focus is on running services and repairing or renewing the railway infrastructure.

Route Services - leads network operations and strategy, and provides essential operational and business services.

System Operator - brings together timetables, network and industry strategies and plans.

Technical Authority - provides technical leadership and specialist expertise.

Finance, HR, Communications - provide professional support to our regions and functions.

INTRODUCTION BY OUR CHAIR

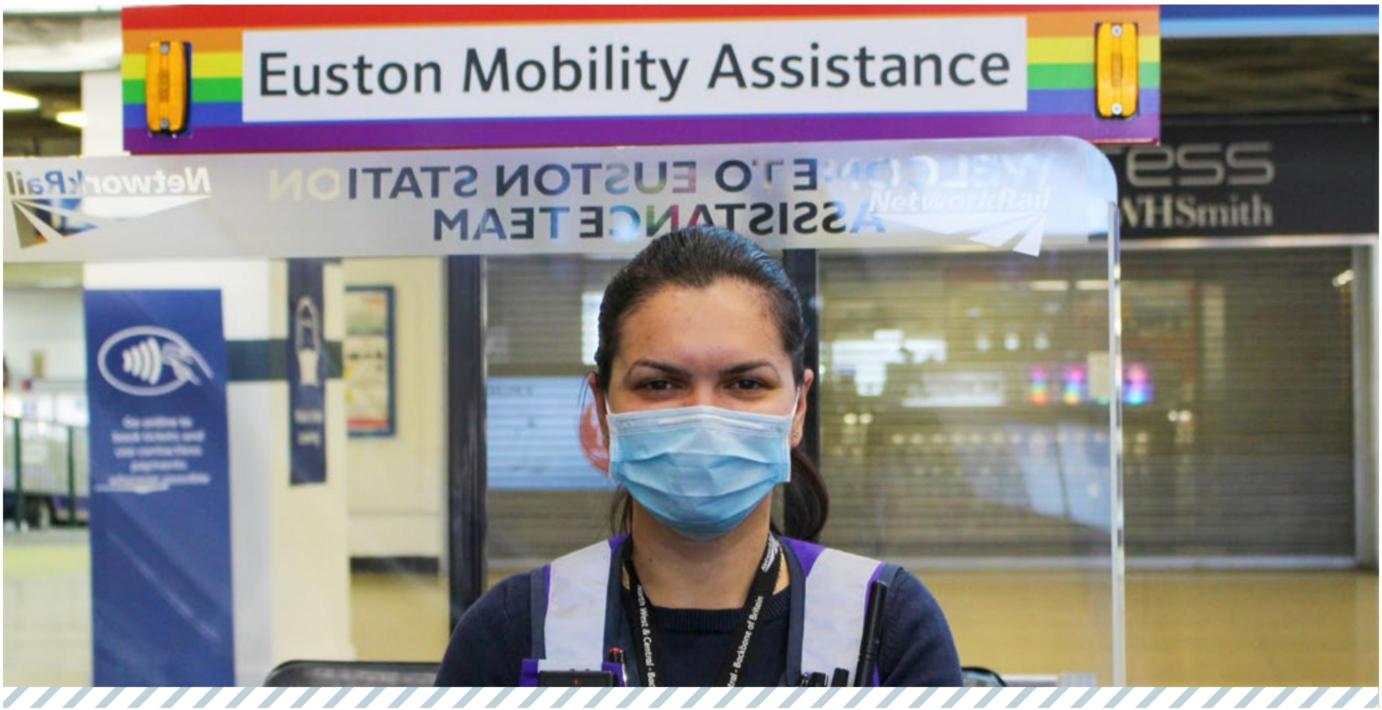
Sir Peter Hendy, CBE

This year, the railway has proved itself to be vital in keeping Britain connected.

Throughout the pandemic, the railway has delivered goods such as food, power and medical supplies, while providing a reliable service for those who needed to keep going to work, including doctors, nurses and retail workers. As Britain emerges from the worst crisis of our lifetimes, the railway will continue to play an important role. Connectivity drives economic growth, jobs, housing and social cohesion, which are all even more critical against a very difficult economic landscape. One of the Government's main priorities is levelling-up and rail will help deliver this, while also supporting its ambitious decarbonisation targets by making rail greener and getting more people and goods off the road and onto trains. Equally importantly, the railway will help to reconnect people – bringing friends, family and loved ones back together and allowing businesses to once again reap the benefits of the innovation and competition that comes with being clustered together in towns and cities.

To provide those essential services, our colleagues have been on the front line to keep Britain moving. Their dedication has allowed us to safely run a flexible timetable, as well as target our investments and upgrade work so we're better placed to provide returning passengers with a reliable railway and help our freight customers continue to move more goods, more efficiently. Many of those colleagues have also made time to help out in the community, with hundreds of hours given to supporting those in need. This has been recognised at the highest level, with eleven honours awarded to our people this year – a record.

This year has seen the rail industry come together in a way it hasn't for many years and we are determined to nurture this for the future. This teamwork will be vital in restoring confidence among passengers who've been away from the railway for so long, and in turning our stations back into bustling hubs that are destinations for retail and hospitality.



Putting passengers first is more essential than ever – the pandemic has shown that we cannot take them, or our freight customers for granted. Keeping the railway running with greatly reduced passenger numbers has been costly and only possible through immense Government support. That inevitably and rightly means we must provide value for money as we build back better and greener.

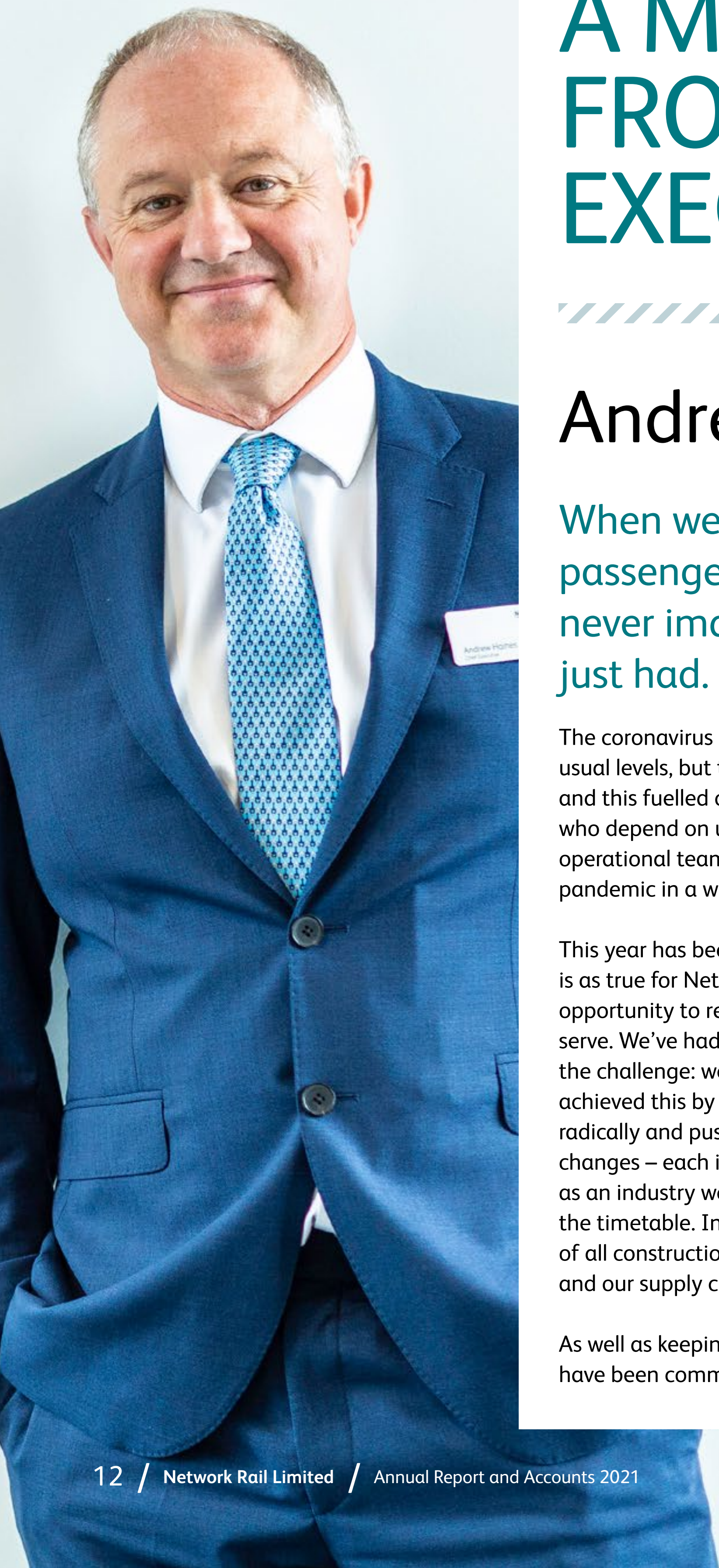
For rail, building back better includes the reform of the industry. We have already made great strides in our commitment to putting passengers at the heart of our own organisation, but there is much more to do to provide Britain with the reliable and sustainable railway it needs and deserves. The Williams-Shapps Plan for Rail maps how drastic changes to the system, including how it is organised, will provide a better railway. As Great British Railways takes shape, we will give our full energy and support to making it successful.

Another big part of achieving a better railway will be a relentless focus on safety. In a year during which far too many have lost loved ones too soon, and even more people have felt unsafe for the first time in their lives, the railway community has also experienced tragedy. The devastating loss of five lives on our railway since August has accelerated our efforts to make things safer for our people and passengers. Nothing is more important.

I have absolute confidence in Andrew Haines, our chief executive, and his executive leadership team, to deliver these changes with commitment and pace, with the support of our Board. Mark Bayley, Fiona Ross and Michael Harrison joined the Board in May 2020 and Ismail Amla and Stephen Duckworth joined the Board in April 2021. While Sharon Flood left Network Rail in August 2020 after six years of service as a Board member. I thank Sharon for her many contributions, particularly as a champion for a greener railway. Her energy has given us a sustainability strategy that will help us to play a vital role in growing a sustainable economy.

Most of all, I want to thank our Network Rail colleagues and suppliers who have delivered for Britain day-in and day-out, and take a moment to remember those we have lost, during a truly difficult year. The next year will bring fresh challenges as we adapt to make sure the railway's infrastructure, trains, people and processes are fit for new working and travelling habits. I know that together we can deliver this, providing passengers and freight users with the clean, reliable service they deserve, as they return.

Sir Peter Hendy CBE,
chair
15 July 2021



A MESSAGE FROM OUR CHIEF EXECUTIVE

Andrew Haines, OBE

When we set out on our journey to put passengers and freight users first, we never imagined a year like the one we've just had.

The coronavirus pandemic has seen passenger numbers fall to a fraction of usual levels, but those who still travelled by train needed us more than ever and this fuelled our determination to provide the very best service to those who depend on us. With more decision making power in the hands of local operational teams, our new organisational set-up helped us respond to the pandemic in a way that makes me proud.

This year has been one of the most challenging in our recent history – this is as true for Network Rail as it is for individuals. But it has presented a real opportunity to reset the way we work and make a difference to those we serve. We've had the freedom to do things differently and we've risen to the challenge: we've shown we can adapt and, critically, deliver at pace. We achieved this by doing things in a very 'un-Network Rail' way. By thinking radically and pushing the boundaries, we delivered five national timetable changes – each in a matter of weeks rather than months. And it worked, so as an industry we're changing our strategy so that we can stay flexible with the timetable. In April and May 2020, we were responsible for 25 per cent of all construction spend in the UK – testament to the speed at which we and our supply chain were able to adapt during uncertain times.

As well as keeping the railway running for passengers and freight, we have been committed to supporting our tenants, our suppliers and our communities. We provided rent relief for those in our properties and set up faster payment terms for suppliers. We're also donating hundreds of refurbished laptops to children to support home learning and divert waste from landfill.

And our people have really stepped up too. In their day jobs, they have worked in unusual and testing conditions to keep the railway running – focussing on keeping themselves and others safe while enabling key workers to travel and moving vital supplies around the country. On top of this, they have donated their time to the national effort, helping to set up Nightingale hospitals, giving much-needed equipment to the NHS and delivering food parcels to vulnerable people in their local areas. As individuals and as an organisation, we have shown our imagination, agility and strength. We have raised the bar. Now we must keep it up during this important time because these ways of working will be critical for building back better and greener.

The railway has a huge role to play in Britain's sustainable economic recovery, re-connecting communities, levelling-up and delivering a zero-carbon future. Making sure our people have the tools to support this will be critical as more passengers return. With a sharp drop in commuter and leisure travel demand, we have had a much less congested network for much of the year. Fewer services with fewer passengers have allowed the network to operate far more punctually and with more resilience. We've used these quieter times to make changes to the timetable that will help us stay reliable, such as choosing not to reintroduce certain services which have a disproportionate negative impact on performance. We have also used this time to accelerate maintenance and renewals work and fast-track our plans to bring longer and heavier freight trains into service. This, combined with smoother ways of operating, will help the network to keep moving freely as we welcome passengers back.

In a time where public funding will be scarce, efficiency and value for money are also a vital part of building back better. We have a responsibility to make sure that we are using every pound from Government appropriately and where it can do most good. That's why we're set to deliver £4bn of efficiencies across Control Period 6 (CP6) which runs from 2019 to 2024, having previously committed to £3.5bn at the start of the control period. By the end of the financial year, we expect to have already achieved over £1bn of this target, and we're on track to deliver our future year plans as well.

Efficiency doesn't mean cutting corners or cutting investment. Instead, we will work harder, faster, smarter and deliver more for less. Doing things quickly and strategically is how we will ensure the taxpayer can trust the railway to put funding to the best possible use in an industry with huge potential for innovation. Being able to continue investing during such an extraordinary time is a powerful reminder of how important our railway is to Britain and the economy. That's why we carefully planned ways to minimise any potential impacts of the UK's exit from the EU on the railway – such as making sure our supply chain was robust and that we were ready for any crowding or disruption. We've now turned our attention to how we will manage the impacts and make the most of any opportunities brought by changes to the operation of our borders in the future. These plans will help us to keep things running smoothly for our passengers and freight.

During a year of tragedy as a result of the pandemic, there were also painful losses from within our railway family. In April, contractor Aden Ashurst was fatally struck by a train in Roade. Our ScotRail colleagues Brett McCullough and Donald Dinnie, along with our passenger Christopher Stuchbury, lost their lives in the terrible accident near Stonehaven in August. In November, a horrific incident at our facility in Eastleigh saw us lose another friend and colleague. A few months later, in February, we devastatingly also lost our colleague Tyler Byrne on track close to Surbiton station. These losses force us to stop and look again at how we do things. They are stark reminders of the risks and challenges of operating our railway – a complex system now also facing the realities of climate change. The RAIB report into the tragic loss of life at Margam in 2019 tells us clearly that the way we work must change if we are to keep everyone safe. This is why we are redoubling our determination and our efforts to get everyone home safe every day, led by our Track Worker Safety Task Force. The task force has already reduced the amount of work on open lines by more than half, and we are focussed on achieving a real step change in our safety culture - modernising how we work on track by deploying hundreds of items of safety equipment to protect colleagues on or near the line. Many things have felt outside our control this year, but a safer railway is very much within our control and a challenge we own.

The accident near Stonehaven has also highlighted that improving the resilience of our railway is becoming an urgent task. Even before this recent tragedy, work was underway to better understand our infrastructure so that we can target investment in resilience where it's most needed. Following the accident, we set up two independent task forces, led by world-renowned experts, to improve how we manage our earthworks and our response to severe weather. We are using new weather forecast technology to help us be better prepared and looking more closely at how we control water on the network. The experts' recommendations will guide further action.

Climate resilience is also one of four pillars at the heart of our new Environmental Sustainability Strategy which we launched in September. Our strategy outlines plans for a cleaner, greener railway over the next 30 years, focussing on decarbonisation, climate resilience, improving biodiversity and reducing waste. Rail is already the greenest form of public transport and we want to make sure it stays that way. We know rail has a vital role in building back better and greener and helping Government achieve its target of net zero emissions by 2050. That's why, this year, we hit the first major milestone in our strategy, becoming the first railway in the world to introduce ambitious science-based targets for cutting carbon.

Creating an efficient, sustainable railway that's fit for the future can only be achieved through teamwork and we're committed to building teams that represent the communities we serve. Our Race Matters and Gender Matters programmes have really upped the ante in our work to level the playing field. Our ethnicity pay gap has decreased 2.3 per cent this year, though it remains above the national average, so we're working to better understand the barriers BAME employees and candidates face. We've also set an ambitious target to tackle the gender imbalance in our workforce by 2024 by bringing more women into parts of the organisation where they have been historically under-represented. We always knew that doing this would temporarily increase our gender pay gap, as it has this year, but it's still the right thing to do and will help us grow a more equal railway in the long run.

The pandemic has been a time of deep worry and huge personal loss for our people, partners and passengers. Despite many dark days, it has also shown that we can work harder and faster than we ever thought possible and shone a light on the care and commitment that exists across the railway. We care about our passengers' priorities – which we know have changed – and we are determined to win them back. To be able to do this we must be structured to deliver for them. Our new internal set-up is already helping us to do this better, but the Williams-Shapps Plan for Rail both recognises the progress we have made and shows that more is needed now. This blueprint for industry-wide reform provides a clear and confident vision. It sets out the plan for Great British Railways to deliver a modern passenger experience that's greener and provides simpler ticketing, faster upgrades, better value and new opportunities for freight.

As we transition, I am determined to bolster the momentum that we have built. We have proved what the rail industry can achieve when it is better aligned and goals are shared. Simplification and integration on our railway – with its many parts pulling in the same direction, along with clear accountability and the right resources to make it happen – is how we will create a system that works better for everyone.

Andrew Haines OBE,
chief executive
15 July 2021

OUR RESPONSE TO COVID-19 AND LEAVING THE EU

The Network Rail Board directed our senior executives to begin responding to the Covid-19 pandemic in February 2020. Our industry-wide effort to respond to the crisis would not have been possible without significant financial support from Government. Details of our governance arrangements to ensure this happened effectively can be found in the corporate governance report (page 94 to 103).

The executive identified five pillars for our business response:

- Keeping the railway open
- Keeping the track and infrastructure safe and working properly
- Keeping our business working effectively
- Looking after our people
- Delivering our plans for improvements to the track and infrastructure

Keeping the railway open

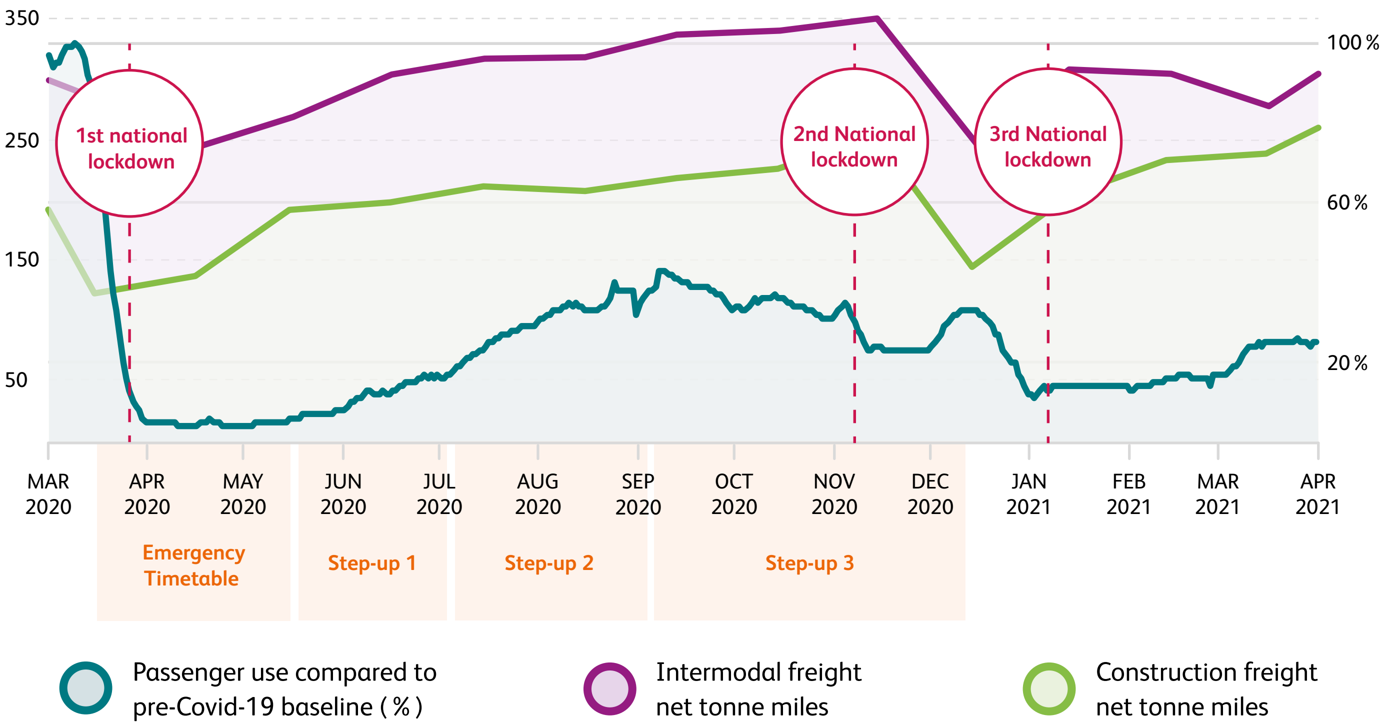
Our priority is to keep the whole railway network open to both passenger and freight trains. During the whole of 2020 all our stations, depots and offices remained open and we were able to maintain the railway network so trains could run normally. We worked with the Rail Delivery Group (RDG) and Department for Transport (DfT) to install vending machines in stations to provide face coverings and hand sanitisers, mark platforms and block off seats for social distancing, and we also increased cleaning across stations.

While the railway remained open many train operating companies weren't able to staff their normal services while at the same time the number of passengers fell by up to 90 %. The amount of freight traffic also fell, particularly the movement of international containers and the transport of materials for construction projects across the country. We worked with our partners to prioritise the most essential services for passengers and freight.

On the freight front there have been significant achievements during the pandemic, and we've been running record construction sector volumes since summer 2020. For example, DB Cargo and Transfesa Logistics launched an express 72-hour rail service to transport essential hygiene, medical and food products from terminals in Valencia and Murcia to London. And there's also been an uptick in domestic intermodal volumes since March 2020 – for example, supermarket trains – that have shouldered the burgeoning demands of stay-at-home consumption. Freight also helped keep lights on in homes and businesses with vital biomass deliveries to Drax power station in Yorkshire – all while battling flood damage. We're also helping our freight customers run longer and heavier 'jumbo' trains on the network where demand has traditionally been used for passenger services. We're building this into our timetabling process as we go forward to ensure that we can put even more freight on rail and encourage modal shift.

Network Rail's System Operator function is responsible for producing the railway timetables and along with the RDG and the DfT they worked with the industry and agreed plans for reducing services in April and May: in total, five major timetable changes were delivered in 2020 instead of the usual two to reflect the changing demand. By the end of 2020 train services had been restored to 90 % of what they had been in December 2019.

The use of passenger and freight rail during 2020 and Network Rail's timetable changes that supported the changing environment.



We opened a temporary facility so we could continue signalling training for new recruits and we also appealed to retired signallers to volunteer to provide cover at signal boxes and control centres. More than 200 signallers across Wales and the West of England responded to the call to arms.

Keeping the track and infrastructure safe and working properly

Throughout the pandemic we have been able to maintain high standards in looking after the track and its infrastructure to keep the railway running. Many of our procedures involve colleagues working closely together or in confined spaces and so we worked with the trades unions and our regulator, the Office of Rail and Road (ORR), to adapt these and reduce the risk of spreading the virus.

Our Route Services function worked with our five regions to make sure there were options should staff not be available because of sick leave or having to isolate. We supported small and highly skilled teams so that business priorities could continue running, and we improved our systems for remotely monitoring the railway track and its infrastructure.

We understood that not all tasks were critical so we worked closely with the ORR to identify tasks that weren't, then we changed our standards and guidance so we could reduce the workload on our maintenance teams.

Keeping our business working effectively

The pandemic significantly affected how we were able to operate as a business. The number of staff able to work from home increased from 3,000 before the pandemic to 20,000 by April 2020 because of improvements made by our IT teams. All staff who could or wanted to, were able to work from home.

Network Rail sources people and equipment from across the world and Covid-19 affected many of our supply chains. Our Route Services team worked to make sure that the supply of people, goods, and services was impacted as little as possible. Soon after the first lockdown we cancelled the first quarter payments due from tenants in our commercial estate portfolio to provide relief for business who were worried about the impact of the virus on their footfall. For smaller companies we changed our payment terms so we could pay them faster.

Looking after our people

The pandemic created high levels of anxiety among our people, passengers and partners and many suffered immense loss. We provided clear and accessible guidance to all staff to help them stay safe, look after themselves, their families and colleagues. This included advice on when and how to self-isolate, what to do when coming back from holiday, or what would happen if they cancelled leave to support their colleagues.

We worked closely with the trades unions to give guidance and create or change policies that looked after the health and wellbeing of staff right across the industry. It was particularly important to support those colleagues who were clinically vulnerable and needed to shield themselves.

Where possible we asked colleagues to work from home as an effective way to reduce the risks of catching or spreading the virus. However, many staff had to juggle other responsibilities such as childcare, as well as adjusting to new daily routines because of lockdown.

We encouraged everyone in Network Rail to look after their mental health and wellbeing. With other organisations in the rail industry we created Rail Wellbeing Live 2020 which was all about improving the wellbeing of people across our industry with a range of talks from Ruby Wax's 'defrazzling the brain' to Dr Rangan Chatterjee's 'Feel better in 5'. Over 13,000 rail colleagues took part making it the biggest annual event in the rail industry. The event will become an annual fixture in the industry calendar.

We changed our annual leave policy to give our people more choices and flexibility while at the same time encouraging them to take breaks even if they couldn't travel outside of their homes or beyond their local area.

We made our workplaces as safe as possible from the virus. All our locations were adapted to enable good social distancing and, wherever possible, to separate colleagues physically from each other. Over 100 of our locations were fitted with thermal imaging cameras to identify staff who might be ill. In December we supported the DfT to set up mass testing sites for transport workers and worked with Public Health England to monitor the spread of the virus among our staff. We also piloted the Hack Partners 'Mind the Gap' social distancing app which uses audio and Bluetooth signals to alert users when they're getting too close. The app is now ready for industry-wide deployment.

As evidence emerged that our colleagues from BAME communities were more vulnerable to the virus we published guidance to help and support them.

Delivering our plans for improvements to the track and infrastructure

We were able to deliver most of the approximately £502m works we had planned for improving the railway for passenger and freight traffic during 2020 – many of these happen annually at Easter, the May bank holidays, and over summer and Christmas. The pandemic increased risks such as not having the right staff and skills available, and we had to adapt how we worked to implement social distancing guidelines. The companies in our supply chain were affected in the same way.

We also developed the 'Delivering Railway Work during Covid-19' plan that showed which works we would accelerate during the pandemic.

Other ways we supported the country

- We made our car parks free for critical workers to use.
- We encouraged volunteering.
- We were aware of our role in supporting the country to make sure the railway played a full role in the national effort.
- We provided logistics and project management expertise to help deliver the NHS Nightingale Hospital North West in Manchester.
- Some of our people in the North East of England supported the NHS by donating spare PPE to staff at Hexham General Hospital in Northumberland.
- Railway workers also drove hundreds of miles through the night from Hampshire to Merseyside to deliver two lorry loads of protective medical face masks for frontline workers in the NHS.

The UK's exit from the EU

Network Rail's Board and executive leadership team have long been aware that the UK's exit from the EU could have a high impact on the economy, regular rail operations and future rail investment plans. The consequences of not reaching a trade agreement could affect supply chains, and lead to complications and delays at the UK/EU borders. This would especially be felt in Kent, where the secondary impacts of traffic disruption could affect domestic and Eurostar services into and around London and the South East.

In response, Network Rail formed a planning group involving our regions and key national teams that would coordinate at regional and national levels. We began reviewing our supply chain resilience in August, and regions and functions also reviewed their own individual situations and plans.

We identified four focus areas with the DfT:
- making sure that the railway (particularly in the South East) continued to operate including that the flow of critical parts from EU supply chains and movement of staff remained uninterrupted
- minimising the impact of knock-on disruption across the South East by coordinating Network Rail, wider industry and government planning to maintain an effective response to incidents
- minimising the impact of possible disruption in Kent across the breadth of railway industry operations including staff mobility, access to critical operational locations, and overall mobility
- managing crowds and security at St Pancras station in London.

We started our national and regional command teams in early December which became focal points for engagement across the wider industry and civil responders. This decision recognised that despite a free trade agreement being reached the impact of the UK withdrawing from the EU Single Market and Customs Area would lead to changes in the way that the UK/EU borders operated.

The operational tempo of command meetings was lowered in mid-January as conditions stabilised. We continue to plan for future changes to how the borders operate and we'll also look out for potential impacts and opportunities that come from the EU exit.

ABOUT NETWORK RAIL

Who we are and what we do

Our purpose is to get people and goods where they need to be, and to support Great Britain's economic prosperity.

Our role is to run a safe, reliable and efficient railway, serving our customers and communities.

We own, repair and develop the railway infrastructure in England, Scotland and Wales.

How we're funded

As a company, Network Rail is limited by guarantee and does not issue shares. Because we don't have shares, we do not have any shareholders, so we don't pay dividends. We use the profit we make to improve the railway network for our passengers and freight users.

Network Rail is also a public sector arm's length body, meaning that we're part of Government. As we don't have any shareholders, we have one 'member', the Secretary of State for Transport. Our framework agreement with the Department for Transport sets out how we will work together in terms of corporate governance and financial management.

Our income is a mix of grants from the UK and Scottish Governments, payments from train and freight operators that use the railway, and a small amount of income from the property we own, eg, rental income from shops at stations. We also work closely with organisations that are willing to pay for specific projects that benefit both them and our passengers and freight users.

We work in five-year funding cycles, called Control Periods (CP), and each year is divided into thirteen, four-week reporting periods. The UK and Scottish Governments tell us what they need from the railway network in each CP and how much they can afford to pay for it. The 2020/21 financial year is the second year of CP6 which runs from April 2019 to March 2024.

The Office of Rail and Road (ORR), our independent regulator, decides how much money it thinks we need to run our business efficiently and to deliver what the governments have asked for. The ORR then fixes the amount we can charge train operating companies for using the railway network.

Network Rail's vision

Our vision is

"Putting Passengers First"

We're becoming a company that is on the side of passengers and freight users. A company that is easy to engage with and is an efficient and dependable partner; a company people are proud to work for.

In 2019 we asked our customers, stakeholders and employees what they thought of Network Rail. People thought we were hard to do business with, we had a confusing structure that was too siloed and too centralised, and that we did not empower our people to make decisions. Our people wanted to feel proud to work for the company. We developed our Putting Passengers First vision to address this feedback.

We identified our six strategic priorities for delivering that vision. And we organised our business to bring decision making closer to those we serve, making sure that the regions and routes meet the needs of their passengers, customers and communities.

We defined our corporate values to help our people understand how they can put passengers first. We're emphasising that the work each of us does, connects us with our passengers and freight users. And we're making it easier for our partners and suppliers across the industry to work with us.

Our culture

To complement our putting passengers first vision, we're embedding a customer service mindset across the business. Embodying this mindset, and to help our people understand how they can put passengers first, we have defined our corporate values:

We **empower** our people to always be **safe**, **care** about the railway, its users and each other, and put **teamwork** at the heart of all that we do.

These values include our corporate behaviours of being accountable, challenging, collaborative and customer driven.

NUMBER OF PASSENGER JOURNEYS

2020/21	2019/20
388m	1.7bn

AMOUNT OF FREIGHT
(bn net tonne kilometres)

2020/21	2019/20
15.2bn	16.6bn

Over
2,500
stations, the 20 largest are managed by Network Rail

20,000
miles of track

30,000
bridges, tunnels & viaducts

Our customer service mindset not only applies to how we work with passengers. It defines how we work with our colleagues within Network Rail and our other stakeholders, such as those living next to or close by the railway, and the train operating companies.

This culture will show that we're on the side of passengers and freight users; that we're easy to engage with, an efficient and dependable partner; and it will help our people to feel proud to work for Network Rail.

Our strategic priorities

To help us deliver our putting passengers first vision, we identified six strategic priorities to focus on:

Safety

Train service delivery

Efficiency

Sustainable growth

Customers and communities

People

Our **safety** vision is Everyone Home Safe Every Day. For us, safety is paramount. We work to make sure passengers and other members of the public understand how to stay safe around the railway, and we're passionate about the safety of our employees and contractors. Safety is at the heart of every decision we take during our improvement works. We measure our safety performance and work hard to improve where we can.

We are improving **train service delivery** by reducing delays and disruption for passengers and freight users. We do this by working to stop faults happening. By improving how we work and the technology we use to find and fix faults more quickly, we can get the service back to normal as swiftly as possible.

We are working to deliver an affordable and **efficient** railway. While we don't set rail fares, we do understand our responsibility to spend tax-payers' money wisely in improving the railway infrastructure. We're using the latest technology and practices to speed up our work safely, on and off the track. By taking less time to complete work, we're saving money and causing less delay and disruption for our passengers and freight users.

Prior to the coronavirus pandemic, **sustainable growth** was as much about increasing the capacity on the rail network as about reducing our impact on the environment. Passenger numbers in a post-pandemic world remain uncertain, as does the passenger profile between business travellers, commuters and those travelling for leisure. We continue to model and forecast potential passenger trends that we might see in the months and years ahead. However, we also need to continue our work to improve the railway infrastructure where there is a strong business case to do so.

In September 2020 we published our Environmental Sustainability Strategy 2020-2050. That strategy commits us to delivering a low emission railway, a reliable railway service that is resilient to climate change, with improved biodiversity of plants and wildlife, and minimal waste and sustainable use of materials (see the Environmental Sustainability section on page 71).

We're improving the service we provide to our **customers and communities** by listening to what they need and responding appropriately. We're working more closely with our lineside neighbours, the people and businesses who live and work next to the railway, trying to minimise the impact our trackside works may have on them, both in terms of noise and disruption, and our workers' behaviour. We have reduced the time it takes us to respond to any complaints we receive.

We can only achieve our vision of putting passengers first if we employ the best **people**. To help us attract and retain the best, we must create an environment in which people can bring their whole selves to work. We need our people to feel safe to be who they are without fear of discrimination, and we need to offer them an environment in which they can fulfil their potential and feel valued. A diverse workforce will reflect the diversity of our passengers, the communities we serve and in which we operate; it will help us to understand and address what people need from us.

Our business model – how we are organised

We are organised into five geographical regions, each with its own managing director, see map on page 35. Those regions are sub-divided into a total of 15 routes. Many decisions that were previously taken centrally now take place at region or route level. The people making the decisions are closer to their passengers and freight users and have a better understanding of what they need so we can deliver any changes more effectively.

Regions lead on local resourcing strategy and planning activities, bringing together engineering capability and asset (eg, track, bridges, signals, cuttings, etc) management. Regions are accountable for improving the railway network within their geographies, and are responsible for some aspects of longer-term planning, including early timetable and project business case development.

Routes are responsible for running the railway on a day to day basis. This includes carrying out repairs to our assets over the short to medium term.

For more information on each region, please see their individual reports:

Eastern on page 36

North West & Central on page 40

Scotland's Railway on page 44

Southern on page 48

Wales & Western on page 52

Our **Route Services** directorate supports our routes, regions and functions by providing network operations, freight, telecoms and technical expertise, as well as 60 different customer-focussed services to regional customers and other parts of our business. Route Services includes, amongst other teams; commercial and procurement, supply chain operations, business services, IT services, asset information services, and engineering services. By overseeing the delivery of national programmes and initiatives, the team focuses on providing services that put our passengers and freight customers first.

We have two network-wide directorates, System Operator and Technical Authority, and our core professional functions, the Chief Financial Officer's directorate, Human Resources (HR), and Communications.

System Operator provides industry leadership in the development of long term network strategies and advice to funders, integrating the railway service we need to deliver, and production of the railway timetable.

Technical Authority has network wide accountability for setting and monitoring compliance with the policy, strategy and control frameworks relating to safety, engineering, asset management, security, environment and sustainability in accordance with our Licence to Operate and Safety Authorisation.

Our **CFO directorate** is made up of eight functions; Group Finance, Property, Legal and Corporate Services, Audit and Risk, Planning and Regulation, Corporate Finance and Business Development, Corporate Commercial, and the Rail Investment Centre of Excellence. These functions deliver the company's legal reporting and compliance requirements with the ORR and third parties and lead the development and delivery of network strategy and our business plan. The function also provides professional leadership and assurance on capital delivery affordability and holds the business to account for delivering sustainable efficiencies.

Human Resources (HR) leads the development and delivery of our people strategy and policies across the business. It provides professional HR leadership and services, working with the regions and functions according to their needs and demand. The team also delivers strategic transformation initiatives.

Communications provides strategic leadership for our communication teams: promoting best practice, supporting outstanding communications to enable delivery of scorecards, facilitating local delivery of communications, and ensuring compliance with corporate standards.

How we measure our progress

We measure how well we're doing in delivering our vision through the measures in our scorecard. This scorecard is designed to align to our strategic priorities. The things we measure are:

Safety	• Workforce fatalities and weighted injuries • Personal accountability for safety • Passenger passenger safety
Train service delivery	• On time • Passenger satisfaction • Freight cancellations
Efficiencies	• Financial performance measures • Enhancement milestones • Effective volumes
Sustainable growth	• Environmental sustainability index
Customers and communities	• Complaints handling
People	• Employee engagement

The How we performed section on page 26 gives more detail on this scorecard and how we performed during 2020/21.

There is also a broader overview of our performance in the CFO's review of 2020/21 on page 30.

The scorecard informs any payments made to our people under our performance related pay scheme. That scheme is based on the achievement of stretching annual performance targets aligned to each of the strategic priorities. The extent to which those targets have been met, moderated by reference to an individual's personal performance during the year, determines the percentage pay-out against the maximum potential award. More information on the performance related pay scheme can be found on page 126.

While these quantitative measures are useful, for most people it's more meaningful to measure our success by the comments our stakeholders make about us. So, we've written some statements showing the sort of comments we want people to make about us:

"Network Rail plans for the long-term future of the railway"	"My train is on time"	"I have a really good journey… because my station is nice, safe and if things go wrong, I'm looked after"	"It's easy to work with Network Rail and we are good neighbours"	"I do everything I can to keep myself safe and colleagues safe"
"Network Rail helps keep me safe and well"	"Network Rail is efficient and value for money"	"I get the service I am promised"	"Network Rail is a responsible and environmentally sustainable company"	"My manager cares about me and I'm proud to work for Network Rail"

When these are the kinds of comments that we regularly hear, then we'll know we're putting passengers first.

HOW WE ENGAGE WITH OUR STAKEHOLDERS

As Network Rail's Board of directors, we collectively and individually fulfilled our duties, as set out in section 172 of the Companies Act (2006), to a high standard throughout 2020/21. Section 172 states that directors must promote the success of the company, while considering the interests of stakeholders, the environment, and the long-term impact of business activities. We recognise that the success of Network Rail will be dependent on the value we can provide for our stakeholders, the external environments that we impact, and the legacy we create for future generations.

The Network Rail Story sets out our vision, values and the culture we're aiming to achieve. It was developed with our stakeholders and employees with the long-term success of the rail industry at its heart. To deliver the Story, we know we need to maintain constructive communication with our stakeholders and employees and consider their interests in our decision making.

Our six strategic themes structure our decision making, meet the needs of our stakeholders and provide the railway that Britain needs for the future.

As a publicly owned, not-for-dividend company, we take pride in our responsibility of ensuring that our public funding is used appropriately. We're committed to developing a railway for the future and meeting the needs of the people we serve, while minimising our impact on local communities and the environment. For these reasons, all our decision making processes begin with our vision and values in mind.

Covid-19 has had a significant impact on our people, stakeholders and the industry. Throughout the pandemic we've ensured our stakeholder engagement and business processes have continued, using virtual meeting technology wherever possible. We'll continue to be proactive in our stakeholder engagement to work collectively on the recovery of the industry and its revenue.

	Why we engage	Priorities	Our actions
Our people	• Our people are the soul of our business and critical to success • It's essential to build their views into our decision making • We want our people to feel valued and supported	• To work in a safe and positive environment • To have opportunities to develop their careers	• Safety Task Force – keeping people safe on the tracks (page 64) • Rail Wellbeing Live 2020 – improving physical and mental wellbeing (page 17). • Your Voice Surveys – an opportunity to suggest improvements (page 95). • Reverse mentoring – our leaders understand the different life experiences of our people. • Talent management – we support professional development See pages 67 to 70 for more information on our people.

	Why we engage	Priorities	Our actions
Railway users and the public	• To serve the public • To get people and goods where they need to be • To understand what is important to railway users	• Safe, punctual, and reliable train services	• Pandemic safety measures • Publications to encourage responsible behaviour on the rail network • Transport Focus surveys tell us the public's priorities • 24-hour helpline to report concerns
Industry partners	• To work together to operate a world-class railway	• Consistently reliable performance from Network Rail • Network Rail contributes to the efficiency of the railway • To build trusting relationships and improve the network together • Recovery from the pandemic	• Project SPEED – to halve the time and slash the cost of our projects • PACE – deliver projects more quickly at a lower cost and higher quality • Open for Business programme – we made it easier to invest in and build on the railway • Regular engagement with industry partners through external listening programmes
Communities and the environment	• To minimise the disruption caused by our work • To make a positive contribution to local communities and the environment	• Minimise disruption • Value for money • Responsible use of resources • Access to essential services • Enhance local environments	• Pre-notification of works • Community meetings to hear concerns • Prompt action to resolve complaints • Educate on the safe use of the railway and on careers in the industry • Responsible use of resources and waste management • Improve biodiversity See environmental sustainability on page 71 for more information.
The Government	• To recognise our responsibility to deliver the Government's strategy for the railway	• Efficient service for the public • Contribute to nationwide economic development • Robust governance • Develop a railway for the future	• Whole Industry Strategic Plan – we're developing a 30-year plan for the railway • We build positive relationships with the Department for Transport, Transport Scotland and Transport for Wales • We ensure governance standards expected of a publicly listed company
Supply chain partners	• To support economic growth in the local communities we serve	• Safe and efficient joint working • Positive relationships and fair contractual terms	• Our code of business ethics • Rail Investment Centre of excellence – improving the way we work • Involving supply chain partners in planning processes • Open for Business Programme – making it easier to work with Network Rail for small and medium size enterprises

HOW WE PERFORMED 2020/21

	Percentage of achievement to target					
	National	Eastern	North West & Central	Scotland	Southern	Wales & Western
SAFETY						
Passenger Safety (TARR)	0%	88%	95%	0%	100%	100%
Workforce fatalities and weighted injuries	0%	19%	0%	0%	0%	0%
Personal accountability for safety	0%	0%	0%	100%	0%	42%
TRAIN SERVICE DELIVERY						
On time	100%	100%	100%	100%	100%	100%
Passenger satisfaction	0%	0%	25%	100%	0%	25%
Freight cancellations	100%	100%	0%	36%	100%	100%
EFFICIENCY						
Financial performance	37%	22%	57%	0%	40%	39%
Enchancement milestones	9%	64%	93%	90%	100%	91%
Effective volumes	100%	100%	100%	26%	100%	100%
SUSTAINABLE GROWTH						
Environmental sustainability index	66%	60%	59%	53%	86%	28%
CUSTOMERS AND COMMUNITIES						
Complaints handling	56%	21%	100%	70%	70%	98%
PEOPLE						
Employee engagement	100%	75%	63%	100%	100%	63%

Safety

Passenger safety (train accident risk reduction (TARR)): This measures achievement of the key risk reduction activities planned in the year. TARR is made up of milestone and volume targets, both of which have different achievement weightings. A higher figure represents a better performance against target.

The target was to achieve 90 % of planned volumes and milestones. We delivered well on our planned projects to cut the risk of train accidents; but achievement of this measure was set to zero to recognise the impact of the Stonehaven derailment in Scotland and the associated fatalities.

Workforce fatalities and weighted injuries (FWI): This is a measure representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower figure represents a better performance against target.

We missed our target of 0.059, because of the three workforce fatalities we've had this year in North West & Central, Southern and Route Services.

Personal accountability for safety (PAFS): This is a measure of how well we are improving our culture and behaviours to help keep ourselves and our colleagues safe. The measure assesses the combined reduction in breaches in Life Saving Rules and high potential events.

We ended the year with a 52 % increase in life saving rule breaches compared to last year. The requirement to use non-company vehicles to allow for social distancing resulted in more traffic and speeding offences. As a result, we finished significantly behind target.

Train service delivery

On Time: This measure is the percentage of recorded station stops called at early, on-time, or less than 1 minute late.

We significantly exceeded our scorecard target of 65.1 per cent, with 79.7 per cent of trains on time. The pandemic impacted passenger numbers and meant we operated a reduced timetable during the year. This additional capacity resulted in better than planned train performance across all regions.

Passenger satisfaction: This measures the percentage of passengers surveyed who were satisfied with their overall journey. It is based on outputs from the National Rail Passenger Survey (NRPS); 'Overall satisfaction with the journey'.

Transport Focus reported only one survey this financial year because of the pandemic, so the spring NRPS results formed the sole basis of the measure this year. Of passengers surveyed in spring 2020, 82 % were satisfied with their overall journey, which was worse than our target of 83.5 %.

Freight cancellations: This is the number of Network Rail and other operator caused cancellations, as a percentage of freight trains run. This measure is a subset of the regulatory freight delivery metric (FDM). A lower figure represents a better performance against target.

We ended the year at 1.01 per cent, ahead of our overall target of 1.18 per cent. This year saw one of the worst periods in the last three years heavily impacted by flooding, poor weather and snow, but overall it has been helped by the reduced timetable, with lower network congestion and fewer knock-on delays from incidents.

Efficiency

Financial performance measure (FPM): This measure is an assessment of how Network Rail has performed compared to the financial targets set out in the Control Period 6 (CP6) business plan. The measure is an aggregation of the three individual FPM measures from previous years (profit and loss, renewals and enhancements).

Our total expenditure has cost us around £130m more than we'd targeted this year. Better train performance led to lower payments to operators for network incidents. But compared to our original plans we've seen a significant reduction in property income and increased operating expenditure as a result of the pandemic, across all regions.

Enhancement milestones: This measure is the number of milestones completed ahead of time or on time, as a percentage of all milestones planned for delivery in the year.

Despite the impacts of the pandemic we achieved nine out of eleven enhancement milestones ahead of schedule or on time, which equates to 81.8 % against a target of 90 %.

Effective volumes: This is a measure of how much additional life our track renewal activities add to our assets, which provides a medium-term view of sustainability. It is calculated as a weighted aggregation of renewals volumes, where the weighting distinguishes between activity types and their different impacts on asset life.

We finished the year ahead of our budgeted renewals work, delivering 112 % of target. The additional capacity on the railway has allowed us more time to carry out engineering works, particularly on track and earthworks.

Sustainable growth

Environmental sustainability index: This is an index representing performance against four key environmental measures: percentage of waste recycled, percentage of waste diverted from landfill, percentage reduction in carbon emissions, and percentage reduction in non-traction energy usage.

We ended the year at 66 %, exceeding our overall target of 50 %. We finished ahead of our target for recycling and cutting our carbon emissions and non-traction energy use largely because the coronavirus reduced office and managed station usage. Southern particularly benefitted because it has the most retail-heavy managed stations, whereas Wales and Western saw less benefit.

Customers and communities

Complaints handling: This is a measure calculated from the number of complaints, the average age of open service requests, and the turnaround time of closed service requests.

We achieved 56 %, demonstrating we were broadly in line with target (50 %) for handling complaints. We've seen an increase in complaints about the work we carry out, linked to more people staying at home than in previous years and being more aware of the noise and disruption. The higher number of complaints in the year was largely offset by the faster turnaround times of service requests, but the average age has shifted upwards in Eastern with older cases still to be closed.

People

Employee engagement index: This is a measure representing the proportion of employees surveyed who responded favourably to key questions on engagement. It is calculated from the average score of three questions reported in the pulse surveys: 'I would not hesitate to recommend this organisation to a friend seeking employment', 'it would take a lot to get me to leave this organisation' and 'this organisation inspires me to do my best work every day'.

The employee pulse survey results were very strong and demonstrated how valued and positive our people feel about the organisation. The February 2021 pulse survey indicated an engagement score of 62%, down from 66% in the August 2020 pulse survey. But it remains above target and, encouragingly, 75% of respondents are proud to work for Network Rail.

Regional Performance

Eastern: Scorecard performance beat target, at 63.4 per cent. We saw strong employee pulse survey results and good performance across the route train performance measures. We also finished the year well ahead of budgeted renewals work, delivering 122% of target. But our expenditure was £75m more than planned this year.

North West & Central: Scorecard performance was above target, at 55.8 per cent. We saw good performance across the individual customer measures, and also finished ahead of budgeted renewals. But safety performance was impacted by missed milestones in reducing train accident risks, coupled with the impact of the workforce fatality in Roade. We also missed the freight cancellations target, due to several major floods which impacted the West Coast Main Line.

Scotland's Railway: Scorecard performance was behind target, at 45.8 per cent. We saw the strongest employee pulse survey results and levels of passenger satisfaction. But our expenditure was £65m more than planned this year, and we suffered the impact of the Stonehaven derailment and associated fatalities.

Southern: Scorecard performance beat target, at 75.7 per cent. Performance was good across customer scorecards, coupled with strong delivery in reducing train accident risks, enhancements, and renewals works. But safety performance was impacted by the workforce fatality at Surbiton.

Wales and Western: Scorecard performance was ahead of target, at 71.1 per cent. We saw good performance across our customer measures, have improved the way we handle complaints and have reported fewer safety incidents. But we have seen lower performance in environmental sustainability as a result of our smaller stations, which have seen fewer benefits of this year's retail closures.

CHIEF FINANCIAL OFFICER'S REVIEW 2020/21

This financial year was the second year of Network Rail's five-year spending plan, covering the period from 1 April 2019 – 31 March 2024.This review will look back over the last year where the pandemic reduced overall passenger levels by around two-thirds. The Government has supported our industry throughout the pandemic so that our direct customers, the passenger and freight operating companies, have continued to pay amounts owed to Network Rail as they fall due. In addition, Network Rail has been able to use the risk funds available in the five-year spending plan to mitigate increased Covid 19- related costs. As a result, there has been no material change to our delivery plan.

Network Rail has also been able to take actions to offset lower station retail income and additional Covid-19-related costs. As a result, we've made a profit this year that is broadly in line with our plans. Every penny of this profit is used to fund our railway investment programme.

We're ahead on our efficiency plans and have targeted a further £500m of savings to augment our original £3.5bn five-year efficiency programme. This will offset the headwinds caused by the pandemic. This year we delivered around £700m towards our updated £4bn target by reducing our activity-adjusted annual cost-base in operations, maintenance and renewals. This means that over £1bn of the £4bn target has been achieved in the first two years of this control period. This is reflected in our Financial Performance Measures (FPM).

This year saw unprecedented measures put in place to minimise the spread of the coronavirus. The response to the pandemic has changed the way of life for our passengers, suppliers and employees, impacting our operations, ways of working and project delivery. We've kept the infrastructure running and the businesses in our supply chain in a position to return to normal service levels as soon as it was advisable to do so. Keeping infrastructure running supported the economy and provided services for passengers and particularly key workers. We remain on a firm financial footing and the actions taken by the Department for Transport (DfT) and Transport Scotland (TS) to support services for passengers has secured the financial position of our key customers.

Key financial highlights

(The financial statements start on page 149)

- Profit before tax was £1.6bn (2019/20: £375m). The profit is used to fund our railway investment programme.
- Our funding mechanism ensures we receive income via grant to pay for renewals which also keeps our debt levels level. In previous control periods renewals were largely funded through further borrowing.
- Revenue increased from £8.1bn to £9.6bn. This was mainly to fund planned increases in maintenance and renewals. Decreases in retail income through the pandemic was offset by improved train performance, partially as a result of less congestion on the network.
- Operating costs increased from £5.8bn to £6.4bn largely due to planned increases in maintenance activity agreed as part of the five-year CP6 settlement, and additional costs as a result of the pandemic.
- Operating profit was £3.2bn, compared to £2.3bn last year.
- Investment was £5.9bn compared with £5.2bn last year due to an increase in infrastructure renewals in line with our business plans.
- Net debt increased slightly to £54.7bn from £54.6bn due to increases in the valuation of RPI-linked bonds.

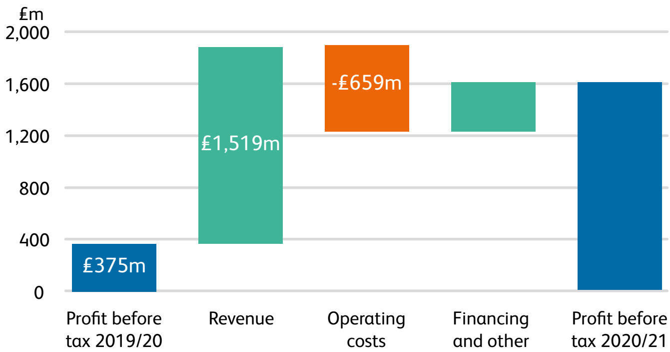
During the year we strengthened our five regions, which are providing stronger local leadership in our Putting Passengers First programme, allowing us to work more closely with our key stakeholders, drive improved performance, and be more cost-efficient and cost competitive.

Financial summary

This review will focus on financial performance in 2020/21.

This year we made a profit before tax of £1.6bn (2019/20: £375m). This improvement was mainly due to the changes in the five-year funding settlement which made allowance for additional renewals activity which we successfully delivered, together with much improved train performance. Set against this, variable track income and retail revenues at stations reduced by £0.2bn as a result of measures taken to curb the pandemic. Maintenance and operating costs showed net increases as new ways of working were put in place to increase Covid-19-security measures and renewals also saw cost increases. We sought to offset these effects by exercising restraint in wage settlements and in making decisions to significantly reduce the previous year's performance-related pay to offset the impact of the pandemic.

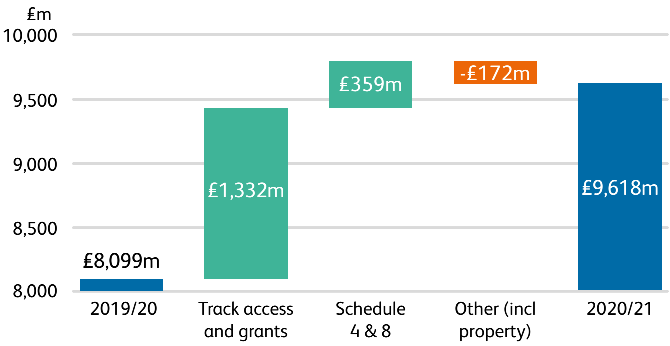
Profit movements since last year



Revenue

Revenue increased in the year to £9,618m (2019/20: £8,099m), an increase of £1,519m.

Revenue movements since last year



Track access and grants rose (£1,332m) in line with the ORR's determination of charges including amounts used to fund planned increases in operating costs and the £1bn increase in renewals delivery. For further details, see Grants recognition policy on page 156. Schedule 4 & 8 performance and access regime costs decreased in the year by £359m. Stronger train performance, a continuation of the previous year's trends, and as a result of less traffic offset the compensation for engineering works. Our Other Income decreased by £172m as a result of a 90 per cent decrease in retail income at stations through the pandemic.

Operating costs

Net operating costs this year were £6,436m. This increased by £659m from last year's expenditure of £5,777m, net of efficiencies.

The year on year movement was driven by: the net impact of Covid (£103m), asset management costs (including research and development) (£118m) and extra maintenance costs (£87m) due to a planned increase in maintenance activity agreed as part of the regulatory settlement.

Employee costs

Staff costs increased by £87m (3 %) largely due to increases to average employee numbers (5 %).

Tax

We have significant brought forward tax losses, not recognised as a tax asset in the accounts. As we continue to invest heavily in the railway network, we therefore pay relatively small amounts of corporation tax. The tax expense of £277m comprises corporation tax at £45m and deferred tax at £232m (2019/20: £395m). The deferred tax liability now stands at £3.4bn (2019/2020: £3.6bn).

Financing costs

Finance costs for the year were £1,741m. This is lower than last year's charge of £2,170m largely because of the impact of lower inflation on RPI-linked bonds and lower prevailing interest rates.

Investment

During 2014-2019 (Control Period 5 (CP5)) Network Rail delivered a major rail investment programme that is now translated into new services for our passengers, ready as Covid-related restrictions ease. This year we delivered £5.9bn of railway investment (2019/20: £5.2bn).

Enhancements that will increase the capacity of the network have amounted to £2.0bn (2019/20 £2.2bn). This included £1.3bn of DfT-funded schemes, £0.2bn funded by Transport Scotland and £0.6bn of other grant-funded projects. Major schemes included improvements on the Midland Mainline between London and Corby, Trans-Pennine improvements, East West Rail, HS2-related projects, East Coast Main Line improvements and in Scotland, improvements relating to the Inverness to Aberdeen and Edinburgh to Glasgow lines.

We have also invested £3.9bn (2019/20: £2.9bn) on renewals this year. This included £1.1bn of track renewals which delivered over 1,200km of new track and replaced over 850 switches and crossings. In addition £0.8bn was spent on signalling renewals, £0.8bn on structures (including around 63,000 square meters of bridges), £0.3bn on electrification assets, £0.3bn on buildings & property, including improving stations for passengers), and £0.6bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment.

In the year, we delivered 112 per cent of our seven key renewal volumes (2019/20: 133 per cent).

Financial performance measures and efficiency

Network Rail has two methods of measuring efficiencies. Our key performance indicator, the financial performance measure (FPM), which measures our performance against the regulatory determination and our in-year targets. This means our baselines for FPM already include the targeted efficiency savings for the control period.

Meanwhile Efficiency, as required to meet the £3.5bn plus £500m target, is measured against the like-for-like costs at the end of the previous control period.

The financial performance measure is impacted by headwinds. This year there has been a notable impact from Covid headwinds which have resulted in numerous extra costs to keep our staff and the travelling public safe along with the costs of cancelling and re-planning projects at short notice, especially at the start of the pandemic.

Efficiency reporting is focussed on the day-to-day costs of running the railway (opex, maintenance and renewals) whilst the financial performance measure assessment also includes turnover and enhancements.

We're constantly working to reduce the cost of the work that we deliver. We continue to make good progress in our commercial efficiencies, productivity and securing more efficient access to carry out work, and through leveraging new technologies.

Overall, FPM finished £163m behind our original plan (2019/20 £10m ahead of targets). This was due to underperformance in renewals by £258m and enhancements by £26m with profit and loss finishing £122m ahead of target.

Profit and loss FPM was ahead of target due to lower train delay costs as a result of reduced traffic were partially offset by reduced retail and variable track access income and increased maintenance and operating costs. The additional costs and lost income were primarily as a result of pandemic response.

Renewals underperformance of £258m on expenditure of £3.9bn was mainly due to introducing Covid-19-safe and socially distanced work practices in response to the pandemic. This was at a time when many other national infrastructure works had been put on hold entirely.

The underperformance in enhancements (£10m) is due to increased costs closing out CP5 projects and pandemic related changes in working practices to keep our people safe.

Looking at our five-year efficiency programme for operations, maintenance and renewals (OMR) we built on a good start in 2019/20, delivering a further £710m of benefits in the second year of the control period, adding to the £385m achieved in the previous year. So it has now cost more than £1bn less, on a like-for-like basis, to run the railway than the prevailing cost base in 2018/19.

The majority of these savings are expected to recur and thus support the increased rate of efficiencies to be delivered in future years. Key elements of this programme are commercial savings, early supplier engagement benefits, improved access, and productivity related gains from new technologies. We have targeted £500m of additional savings in addition to our original £3.5bn five-year efficiency programme.

Financial framework

The railway network that we own and have a licence to operate is included in the accounts at a value that represents what a third-party purchaser would pay for it. This valuation uses an income approach.

The basis of this valuation is set out in note 12 to the accounts and comes from an assessment of the cash flows that are forecast to arise from the asset. Cash flows arise from the asset as it amortises.

The starting point for this valuation is the regulatory asset base (RAB). Subject to certain criteria established by the ORR, each year capital expenditure is added to the RAB and amortisation is deducted.

Amortisation is used by ORR to calculate the regulatory income requirement and our charges to customers or grants from governments. The increased level of RAB amortisation and lower investments are the key reasons that the valuation of the railway network decreased by £1,812m (2019/20: decrease £272m). After considering the changes in valuation, depreciation, additions and disposals the year-end valuation of the railway network was £71,998m (2019/20: £71,809m).

An alternative valuation method for the railway network, depreciated replacement cost (DRC) is used in DfT group accounts. Applying a DRC valuation to the Railway Network results in a higher carrying value than Network Rail's income-based valuation, as it reflects the replacement cost for the entire network. This includes significant elements funded before the RAB was introduced, such as earthworks, long-life structures, and operational land. Together, they comprise much of the value for DRC purposes and are essential to the operation of the railway network. This cost-based approach therefore measures the significant economic benefits of the entire network to Great Britain, which exceed the monetary returns receivable by the holder of the railway network licence.

That DRC approach is used in Network Rail's accounts solely to derive the weighted average asset life of the railway network.

Borrowing

Since becoming a public sector body in September 2014, Network Rail has borrowed directly from government and no longer issues debt on the capital markets. Investments are funded by grant, and from cash generated from operations, and fresh borrowing is used for refinancing maturing loans.

The regulatory settlement for CP6 provides strong security for future income and the DfT loan agreement provides a robust loan refinancing platform.

During the year ended 31 March 2021, we borrowed £10.8bn using the DfT loan facility to refinance maturing borrowing with DfT (£9.8bn) and commercial bonds (£1bn). RPI-linked bonds increased in line with the RPI index. As a result, net debt rose from £54.6bn to £54.7bn.

Financing arrangements

We do not expect to undertake any new net borrowing during 2019-2024. Instead our activities are largely funded by grants from the Department for Transport, Transport Scotland, and revenue from customers. We have a loan facility with the Department for Transport for £31.9bn which will be used to refinance maturing government and external debt in the period 2019-2024.

The loan facility between Network Rail and DfT was signed on 28 March 2019. On 1 April 2019, all borrowings under the previous (July 2014) facility agreement were transferred to the new facility agreement (with their existing interest rates and maturity dates) and the 2014 agreement was terminated. The 2019 facility is sized so that when the legacy bonds fall due for repayment, new money will be provided by borrowing under the 2019 facility (the first such borrowing was in June 2020).

The cash required to pay the interest due on borrowings (to DfT or to bondholders) is provided to Network Rail Infrastructure Limited through the financing costs grants.

Grant agreements with Department for Transport and Transport Scotland

Eight separate grants are in place between NRIL and DfT/TS, replacing the two grants (England and Wales network grant and Scotland network grant) that operated throughout CP5. These grants are:

- with DfT: network grant; enhancements grant; British Transport Police grant; financing costs grant for DfT interest; financing costs grant for external interest (bonds and swaps); and corporation tax grant.
- With TS: network grant and enhancements grant.

Risk management: interest rates and currency

We manage our interest and foreign exchange risk by using derivative financial instruments (hedges). All these arrangements were entered into prior to us becoming an arm's length public body and will reduce over time as our external debt is retired.

We measure our hedges for accounting purposes at their market value as required by international financial reporting standards. A market value is determined by comparing the original value of the hedges against the current market rate.

We don't intend to trade these hedges but use them to minimise our financial risks. If the hedges are economically effective (i.e. they offset changes in the cost of existing and/or future loans), their value at any point in time should not be a key focus when assessing our performance.

By qualifying to use hedge accounting rules, we match gains or losses in the market value of hedges to fluctuations in the hedged item (i.e. the loans). The gains on debt and derivative valuations taken through the income statement were £176m (2019/20: £213m). This gain largely represents the reduction of the fair value of interest rate derivatives liabilities through interest paid on swaps (the latter is included in finance costs).

Pensions

Network Rail is party to two defined benefit pension schemes. Costs are shared with pension scheme members on a 60:40 basis. Pensions are measured differently for IFRS than for actuarial funding reports. IFRS is more conservative and discounts expected future liabilities to a present value, using 'risk-free' borrowing rate, and compares this with current asset valuation. Our accounting deficit at 31 March 2021 increased to £2,899m (2019/20: £2,070m) as changes in financial assumptions were offset by gains on assets. On a funding basis, the schemes have seen the value of their assets increase in the year and they are still fully funded, meaning that the value of pensions assets is expected to grow to meet pension obligations as they fall due. Both Network Rail and members continue to contribute to the schemes.

Post balance sheet events

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.

Summary

The world has changed significantly in the past year and we must adapt too.

The Williams-Shapps plan for rail resulting from the Williams Rail Review was published in May 2021.The way the rail industry has responded to the pandemic shows what can be achieved when we work together as one industry. For example, the pace at which timetable changes have been implemented. This last year has seen Network Rail adapt to challenges and find solutions quickly, while focussing on putting passengers first and delivering value-for-money for taxpayers.

In the circumstances we delivered a broadly satisfactory outcome on our key financial targets and continued to make reasonable progress on our efficiency programme for the 2019-24 Control Period. Of course, that progress excludes the additional costs of the pandemic response and the lost income in the rail industry from lower passenger numbers. So, we recognise we need to focus on the efficiency programme further and have increased our 2019-2024 target from £3.5bn to £4bn of savings.

The next year will require continued ingenuity and focus from the committed, caring and hard-working people that make up the rail industry, whilst also focussing on cost efficiencies and delivering our plans to build back better.

Looking beyond the pandemic recovery period, rail will be an increasingly important part of our national infrastructure. It remains the most efficient and environmentally sustainable option both for passengers wishing to travel between towns and cities, and freight distribution.

The rail industry and we as a company are committed to providing the infrastructure for building a greener and lower carbon society that delivers a better, more reliable and cost-effective railway that continues to put passengers and freight users at the heart of everything we do.

Jeremy Westlake,
chief financial officer
15 July 2021

NETWORK RAIL REGIONS AND ROUTES

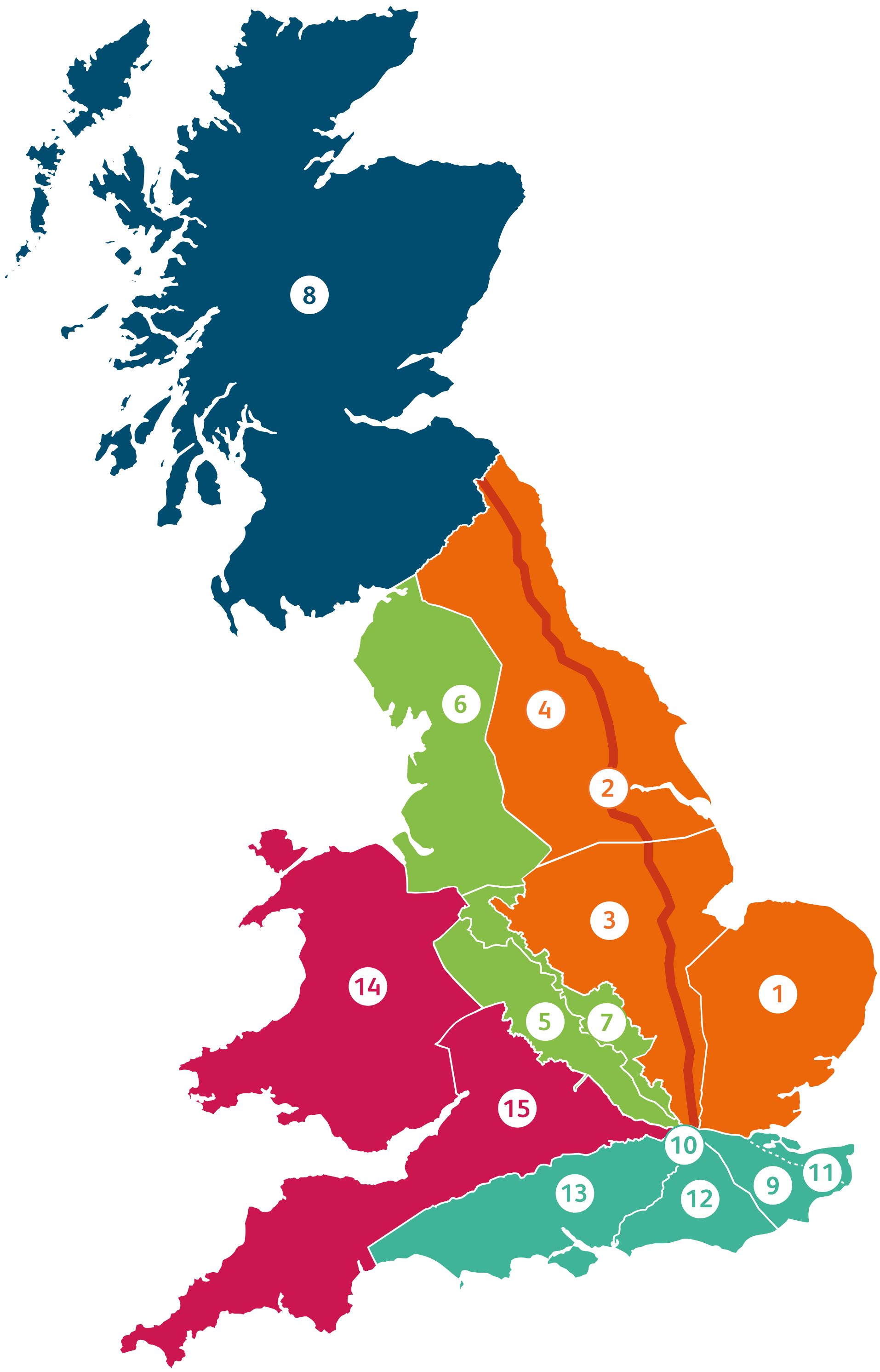
Eastern
1 Anglia route
2 East Coast route
3 East Midlands route
4 North & East route

North West & Central
5 Central route
6 North West route
7 West Coast South route

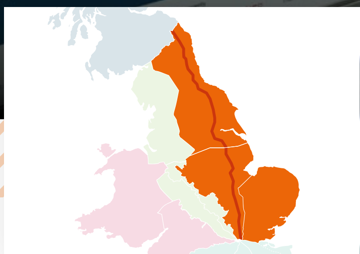
Scotland's Railway
8 Scotland route

Southern
9 Kent route
10 Managed Stations
11 Network Rail High Speed
12 Sussex route
13 Wessex route

Wales & Western
14 Wales & Borders route
15 Western route



EASTERN



Rob McIntosh
managing director, Eastern
15 July 2021

Eastern is Network Rail's largest region, covering approximately one third of the network serving everywhere from Southend-on-Sea to Berwick-on-Tweed. We operate three of the country's 10 busiest stations, serve the country's busiest container port, and have nine international airports on our patch.

Safety

Too many colleagues have not gone home safe every day this year and it's not improving, therefore the safety of our people must be central to everything we think and do. There have been no fatal incidents in Eastern, but there have been too many occasions when that has been narrowly avoided and some of our key statistics are heading in the wrong direction. In the last six months, our region has seen two derailments, an accident in which a colleague suffered life-changing injuries and an incident when one of our track workers had to jump out of the way of a moving train. Nearly 100 colleagues have been injured in the course of their work severely enough that they could not complete their next shift.

This comes at a time when our safety challenge has never been more pronounced, as we now have to protect our people and passengers from Covid-19, as well as maintaining railway safety.

We are reshaping our approach to safety as a result, with a renewed focus and drive from our senior leadership team. There is now a weekly meeting chaired by the regional managing director requiring personal ownership from each member of the executive team. This will then be cascaded throughout the organisation to drive a new performance on safety. This work will go alongside a significant focus on improving track worker safety. We've reduced unassisted lookout work – down from 25 per cent of maintenance operations to under seven per cent in a little over a year. We're committed to stopping the practice entirely by the end of July 2021.

Our response to Covid-19 has involved an unprecedented safeguarding drive, with an emphasis on both mental and physical wellbeing. We've remodelled workplaces to enable social distancing and introduced new cleaning and safety practices. New cleaning regimes were also introduced at stations, alongside passenger information to enable social distancing.

Train service delivery

Our train performance in recent years has not been good enough for passengers. Our new route structure will allow a greater focus on driving improvements, with the First 50 Miles programme in the East Midlands (which aims to tackle ongoing problems at the London end of the route) a good example.

Performance this year has been much better, coinciding with a huge reduction in demand. Timetables were reworked to accommodate reduced demand, facilitating a more deliverable service. On-time services increased from 66.9 per cent to 80.2 per cent. Equivalent statistics for freight increased from 92.4 per cent to 94.8 per cent. Our challenge will be to maintain performance as we welcome passengers back, working closely with train operators.

In addition to benefiting from adjusted timetables, freight performance was also aided by specific interventions, including removing outdated wheel timbers from tracks serving key routes to Felixstowe port.

We've been working over the last year to prepare for our interface with adjusted Crossrail services. In December 2020, Crossrail implemented an increased off-peak service of eight trains per hour (tph), up from six. In May 2021, the peak reduced slightly from 15 tph to 12 tph but, with the introduction of full-length units, capacity was increased. We continue to work with Crossrail towards the full introduction of services.

An area we need to improve is weather resilience. We suffered a number of poor performing days due to flooding and heavy snowfall, although this was mitigated by more track being given autumnal protection.

We had success last summer in reducing heatwave-related delays by better predicting extreme weather. This allowed us to introduce mitigations, which helped cut heat-related incidents from 117 in summer 2019 to 13 in 2020.

In 2020/21, we saw double the number of named storms compared to 2019/20, which is an indication of more frequent future severe weather events. Through our environment and sustainability strategy, we're committed to producing new drainage, earthworks management, and flood prevention schemes by 2024.

We're working to maintain performance in a post-Covid-19 industry as we welcome passengers back. Activities such as improving performance on Liverpool-Norwich services, supporting East Coast Trains ahead of their network debut, and the continued rollout of the new Greater Anglia fleet will support this. We're also working on major timetable changes in 2021 and 2022 to deliver the passenger benefits of the Midland Main Line (MML) and East Coast Main Line (ECML) upgrades.

Efficiency

Eastern region has committed to £1bn of efficiencies through Control Period 6 (CP6) by adopting new technology, new ways of working and optimised access strategies, among other initiatives. The region has exceeded the annual regulatory efficiency target by £28m, in delivering £182m of efficiencies. A key area of focus has been building confidence in our future efficiency plans with stakeholders, including our regulator, the Office for Rail and Road (ORR).

We've invested £2.3bn to operate, maintain, renew and enhance our network, which was £81m greater than originally budgeted. This was mainly driven by additional Covid-related investment in safeguarding passengers and staff, and changes to renewal and enhancement plans necessitated by the changed operating environment. Our focus for the year will be on improving productivity and seeking efficiency savings to play our part in the country's economic recovery.

Sustainable growth

Eastern has delivered successful projects across all four routes over the year. In Anglia, this has included: the identification of the preferred location for the planned new Cambridge South station; improvements at King's Lynn to enable longer trains with more seats for passengers; and new signalling at Clacton to reduce delays.

In the East Midlands, we've finished the biggest upgrade of the Midland Main Line (MML) since it opened in the

Victorian era, which will provide faster and more frequent services from London to Sheffield and Nottingham. On the North and East route, we've been working to improve Middlesbrough Station to enable better London connections; we've built a new platform at Leeds Station to improve services; and we've made good progress on the Trans-Pennine route upgrade.

Our biggest projects have been on the ECML. In response to changing Covid-19 travel restrictions, we were able to give up planned access for works on Christmas Eve. This was the right thing to do for passengers but required significant changes to engineering plans. A cross-industry effort enabled work to be delivered as planned with the railway returned to operators ahead of schedule.

A major improvement was also delivered at Werrington, north of Peterborough, where a 10,000-tonne concrete portal was manoeuvred into position under the ECML in a first for UK engineering. The innovative approach meant we were able to keep the line open for services and saved hundreds of hours of passenger disruption. The East Coast upgrade will deliver better journeys for millions of passengers on one of the country's most important lines.

A more local project also showed the impact Putting Passengers First can make in delivering improvements quickly. Horden Station, in Durham, was opened in June, just six months after breaking ground. Passengers in the area are now being served for the first time in 50 years.

Customers and communities

There has been a significant focus on our customers and communities work, incorporating our 'Four Ps': passengers, partners, public and people.

We used new techniques to reach lineside communities during the pandemic, with good examples of engagement through online forums on the East Midlands route and in the Trans-Pennine route upgrade work.

But lineside neighbour complaints rose significantly during all three lockdowns, leaving numbers far higher and well above internal targets. We failed to keep pace with rising complaints and response times became unacceptably high, peaking at nearly 60 days on average. We've worked to reduce that, with response times halving over the first quarter of 2021.

We're now introducing a new approach to improve complaints handling, with new ways of working over the course of the coming year. Our work to make our lineside neighbours feel like valued customers will drive this forward.

We recognise that good stakeholder engagement is vital. We conduct multiple surveys and reviews across different groups. This includes our listening programme, where one-to-one interviews are conducted by the Eastern executive team. We use the feedback from these activities to shape plans, communications and governance.

As part of our Putting Passenger First change programme, we established passenger experience teams in our four routes. The objective of these teams is to work in partnership with train operating companies to drive improvements.

We want to ensure that the Putting Passengers First programme isn't just about organisational change. We're working with our people to introduce cultural change to ensure that we truly put passengers first. We have several initiatives, including leadership events and team and personal development programmes.

People

In 2020, we introduced a people strategy to support us in attracting, developing and retaining the best people. Our employment engagement surveys show more than two thirds of colleagues were actively engaged and show a year-on-year increase from 64 per cent to 67 per cent.

We're determined to improve our diversity among under-represented communities. We've seen improving trends in the proportion of female employees (14.4 per cent) and those from black and minority ethnic (BAME) groups (6.9 per cent), particularly in employees aged under 30. Our leadership diversity is improving, with 25 per cent of

management posts filled by women. More work is needed and we will show improvements year-on-year.

In 2020/21, over 100 new apprentices joined the region. We also supported the Government's Kickstart programme, which will see us offer 60 paid placements to 16-24 year olds at risk of long-term unemployment.

With line management development identified as a key priority, a training programme has been introduced. This will ensure c1,000 managers have improved knowledge, skills and behaviours to be more effective line managers.

Having the right number of people, with the right skills when we need them is essential for us to deliver our strategic plans. That will be a key focus for the year ahead.

Eastern started 2020/21 with four items on the regulatory escalator. Three that the ORR included across multiple regions and functions, and an Eastern-specific item relating to ECML train performance. Eastern's delivery on commitments and engagement with the ORR has led to three of the four items being removed. We're working on ECML capacity allocation, the remaining item of concern, as part of the wider upgrade and planning for timetable changes next year.

Something we're proud of

The concrete structure we installed under the ECML at Werrington (pictured) was bigger than the Eiffel Tower, weighing more than 10,000 tonnes. The engineering technique to jack it into position had never been done in the UK. The tunnel had been constructed at the side of the tracks, even as trains continued to use it.

To facilitate the project, we worked with train operating companies to install and fully test a temporary signalling system ahead of the nine-day works.

Using innovative engineering solutions meant we were able to maintain services despite such a major intervention. A more conventional approach would have been to close the ECML for a month, so we saved hundreds of hours of passenger disruption.

We also completed the electrification of the Midland Main Line electrification to Corby under budget and this entered passenger service in May 2021.

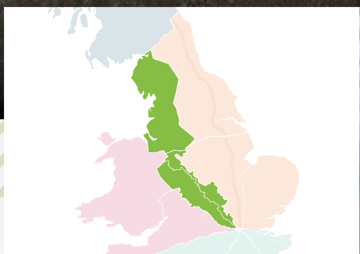
Something we want to improve

Safety has always been our priority. We must and will reverse concerning trends in our statistics and we will continue to drive out unassisted lookout work – eradicating it entirely by the end of July 2021.

Plans for the year ahead

Our focus will be playing our part in helping the country recover from Covid-19. We'll encourage passengers back to the railway as restrictions are lifted and make sure performance remains good as trains get busier. And we'll drive greater productivity and efficiency to play our part in the economic recovery.

NORTH WEST & CENTRAL



Tim Shoveller
managing director, North West & Central
15 July 2021

NW&C is the backbone of Britain linking London, Birmingham, Liverpool and Manchester. NW&C includes the West Coast main line, one of Europe's busiest mixed-use railways. We connect workers with jobs, people with loved ones and goods to market. Every week we move more than one million tonnes of food, consumer goods, building materials and fuel. We serve long-distance business travellers, leisure passengers and commuters. The lens through which we view all we do is our service equation.

Safety + Performance + Brilliant basics = Service

Safety

The death of Aden Ashurst at Roade, Northamptonshire, on 8 April, was a tragic start to 2020/21. Aden was working for AmcoGiffen on a job strengthening a railway embankment. He was struck by a train. Investigations continue. We will learn everything we can from this.

In addition, NW&C recorded 111 injuries to colleagues which prevented them working the next day, and 11 instances of track-working teams narrowly missed by trains. To improve track worker safety, we reduced 'red zone working', where colleagues work on tracks while trains are running. We also improved level crossing safety and reduced instances of red signals being passed by trains.

Personal accountability for safety is a new measure we're using to improve colleagues' behaviour and safety. This year we didn't meet our target, with speeding a significant contributor. In May we launched an employee anti-speeding campaign including a video featuring colleagues who'd lost loved ones to speeding and messages in pay slips.

In January 2021 we began a safety listening programme. Through facilitated sessions and video interviews, we gathered views from more than 1,000 colleagues. Our listening exercise drew out key themes including: overly cumbersome processes leading to colleagues feeling they needed to break rules to get work done, and people managers not getting out to see the reality on the ground. We will use this information to build a plan to improve our safety performance, which we hope gives rise to a safety revolution.

Covid-19 resulted in changes to working practices to keep our people safe. Social distancing, risk assessments, enhanced cleaning and use of PPE helped protect our workforce. Our vehicles were designated as single-use or reduced-use with screens fitted to allow social distancing. Thermal cameras and thermometers were deployed alongside Covid-19 testing facilities on our worksites. We've focussed on managing fatigue and mental health through regular employee engagement assessments and dialogue, timesheet monitoring, webinars and team conversations.

Train service delivery

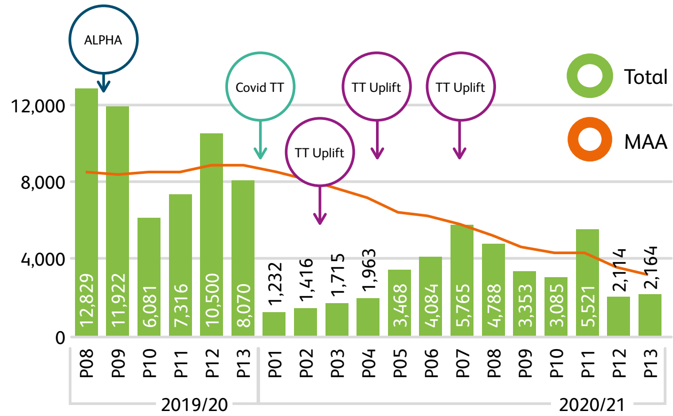
Performance against our key punctuality measures for passenger train service operators (Avanti, West Midlands, Chiltern, Northern, Merseyrail, TransPennine Express) was strong in 2020/21. A key driver of this was low passenger numbers due to Covid-19. A reduced timetable helped recovery from incidents and created more opportunities to carry out maintenance work. Freight traffic was heavily impacted by Covid-19 but picked up robustly after the first lockdown and exceeded our year-end performance targets.

In the years to 2020/21 the railway did not work well for passengers in the North and the West Midlands. Overly complex train timetables spread delay across the network rather than containing it. This coupled with rising (pre-Covid-19) passenger demand and railway asset failures made delays and cancellations commonplace. Passengers suffered.

Project Alpha was activated in November 2019 to remedy poor performance. Areas of focus included improving asset reliability, for example, overhead electric wires and tracks outside our main stations, and mitigating external causes of disruption such as trespass, vandalism and extreme weather.

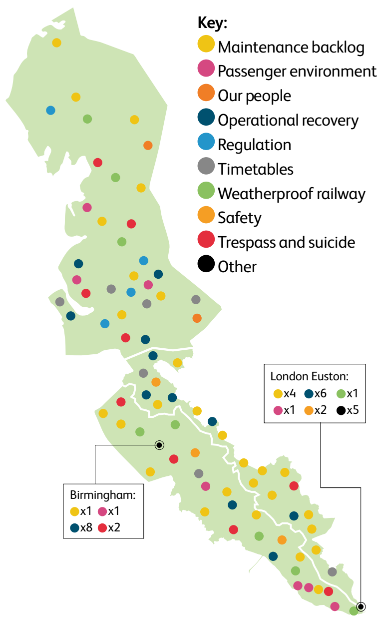
Alpha helped to remove longstanding timetable frailties and improve asset reliability. The graph to the right shows a downward trend in delays caused by Network Rail to train services on NW&C.

North West & Central PPM Failures



* PPM: public performance measure for punctuality and reliability
* MAA: moving annual average

Alpha has grown into a £127m investment programme comprising 125 separate schemes. Two years of delivery lie ahead. The purpose is clear: consistently reliable performance supporting our service equation.



- 125 schemes put forward by our people and our customers have been approved and in delivery.
- £127m of investment to improve performance and passenger and freight experience.
- A two year improvement plan to correct many of the issues we found during the deep dive assessment and listening exercise.
- Schemes that cover the whole region from quick wins to major renewals.
- All schemes are on track with delivery well underway.

We simplified and added resilience to our timetables. We worked with West Midlands Trains to remove over-complex, delay-spreading journeys from their train plan. In January 2021, the Department for Transport (DfT), supported by Network Rail and Transport for the North, ran a formal consultation in and around Manchester on plans for a new May 2022 timetable with more evenly spaced services less prone to knock-on delays. This work seeks to mitigate the impacts of congestion on the busy stretch of railway through central Manchester, including the Castlefield Corridor. In addition, we have set up an industry planning group to inform a restructured timetable and develop a whole-industry solution to congested infrastructure on the West Coast main line.

In January 2020, our regulator the Office of Rail and Road (ORR) announced a review of longstanding poor performance on NW&C. In April 2020, ORR concluded we were, particularly through Project Alpha, taking every practicable step to identify and fix poor performance. In its six-month progress report in December 2020, ORR said NW&C was making “reasonably good progress” against most of its 25 improvement recommendations.

Based on the NRPS (National Rail Passenger Survey) spring 2020 survey, there was an increase in overall passenger satisfaction with journeys. Our target was met. All NW&C-managed stations have seen an increase in overall satisfaction, with the weighted survey result slightly below target.

Efficiency

Covid-19 severely impacted our financial situation. It reduced income from property, station retail and car parking, and track access changes. It increased costs as we bought additional protective equipment for our people, including increased vehicle hire, fitting Perspex screens, masks, hand sanitiser and enhanced cleaning. This was offset by continued strong train performance aided by reduced passenger numbers and Project Alpha improvements.

With fare revenues severely down due to Covid-19, the rail industry remains reliant on additional Government support. A recruitment freeze was imposed in October. This freeze remains in place for support functions.

Our efficiency targets are ambitious. We have outperformed our target this year for both railway renewals and operating expenditure. Increased automation has enabled improved identification of additional efficiency benefits for specific projects. In response to the impact of Covid-19 on the wider rail industry, we have included an additional efficiency challenge for the years to 2024.

In autumn 2020 we activated our ‘brilliant basics’ efficiency programme. We asked NW&C colleagues for ideas on what to stop, start and do differently. We’ve since had 250 ideas resulting in 46 projects with a potential combined efficiency saving of between £50m and £75m when fully delivered. Future opportunities include improved rostering for frontline colleagues, which could save between £4m and £10m a year. It would also improve safety by reducing instances of colleagues going on track.

In February NW&C set up the industry’s first railway efficiency board - train companies and Network Rail viewing their costs from a whole-network perspective with the aim of removing waste and re-growing demand for rail.

Sustainable growth

Asset reliability was ahead of target due to decreased traffic causing less wear and tear on our tracks. Fewer services have also given us more opportunities to access the track to do maintenance. Maintenance and renewal of the network were impacted by adjusted working arrangements to keep our people Covid-19-safe. However, we seized opportunities to accelerate work where possible while passenger volumes were low.

We have instigated our ’10-point plan’ for engineering excellence to deliver a safe, reliable railway. We continue to strengthen our railway to withstand extreme weather. In summer 2019, extreme heat led to overhead wires sagging and causing widespread delays for passengers. We then improved our overhead wires. When extreme heat hit in August, our railway performed better. Following the Stonehaven derailment, we have accelerated our inspection programme of drainage and railway cuttings to identify our high-risk locations. Heavy rain in autumn and January led to the railway flooding, including at Crewe Basford Hall depot and parts of Cheshire during Storm Christoph.

Our earthworks experts continue to identify and secure landslip risk spots. Over Christmas we completed the rebuild of a strengthened railway embankment at Harbury, Warwickshire. This embankment gave way in January 2015, blocking the Chiltern line for six weeks.

In May 2020 we agreed a plan with our passenger and freight train partners to shut the West Coast main line for two weeks at Kilsby Tunnel, near Daventry, Northamptonshire, to replace tracks and improve drainage at this known flooding hotspot; the job was long overdue. Access to this ordinarily busy stretch of line had previously proved impossible due to train companies wanting to continue running services even at reduced speeds. Getting this work done enabled us to lift longstanding speed restrictions, improving journey times and service reliability for years to come. While the line was shut, we carried out around 250 additional maintenance jobs, including cutting back trackside shrubs and upkeep of overhead electric wires.

The 'Kilsby approach' was used again for our flood-protection work at Crick tunnel in March. By doing the job in one five-day hit, we removed the need for a year of overnight weekend work. This removed a cause of train delays for a third of the cost.

We worked together as an industry to keep passengers moving during our embankment slip repairs at Hillmorton, near Rugby, on the West Coast main line in February. During the work, industry collaboration led to Avanti trains stopping at West Midlands Trains' stations.

Our environmental sustainability index (ESI) showed strong performance this year. This index measures how we're performing in relation to reducing our energy use and carbon emissions, and how much waste we recycle, re-use and divert from landfill. Contributing factors included Covid-19 reducing demand for energy and an increasing amount of renewable energy generated by the National Grid. We have started energy audits to identify future savings.

Customers and communities

Over the year the average age of our lineside neighbour and station-user complaint resolution was 15 days - well below the national threshold of 29 days. In our new organisational structure, each route has its own community relations team, enabling better and swifter handling of cases. For 2021/22 we've set targets in each route to incentivise good worker behaviour and consistent advance notification of railway work. These are our two biggest levers to reduce avoidable complaints. We produced a worker behaviour film, Neighbours, for track-based colleagues. Our West Coast South route is creating an interactive map, for launch in 2021/22, to enable lineside neighbours and stakeholders to see what work is happening in their local areas in the coming months and years.

People

NW&C's new three-route structure went live in September 2020 with the aim of being more accountable to the communities and markets we serve.

Having cancelled and capped performance-related pay, recognising our hardworking people has never been more important. One way we do this is through our monthly Backbone of Britain awards.

We held our first Regional Business Council in September which brought together trade union colleagues from our three collective bargaining groups along with our regional MD and his executive team. Partnership working with our unions is vitally important as we seek to modernise Network Rail so it is fit to meet the needs of colleagues, passengers and freight customers in future.

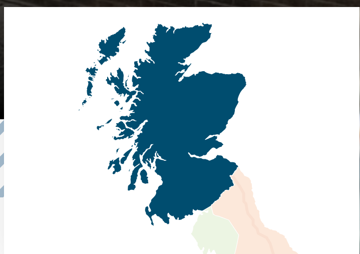
In January 2021, NW&C launched its diversity and inclusion strategy, including reverse-mentoring for senior leaders and 'Let's talk about race' sessions for all colleagues.

Chris Conway, a relief signaller at Bamber Bridge near Preston, was named an MBE in the Queen's summer honours list for his work helping re-house and comfort homeless people in his native Blackpool.

Plans for the year ahead

NW&C's focus in the coming year is emerging stronger together as an industry from Covid-19. We'll do this by working together to bring to life our service equation. Meanwhile our work to build a bigger, more reliable railway for the future continues. This includes work on the Midlands Rail Hub regional connectivity scheme, HS2 and East West Rail to reinstate the old Oxford-Cambridge railway. As we do all this, we'll continue to recognise the professionalism and commitment of our people.

SCOTLAND'S RAILWAY



Alex Hynes
managing director, Scotland's Railway
15 July 2021

Scotland's Railway keeps passengers and freight moving - and communities connected - across a large and diverse network of more than 2,800 miles, which includes world-famous structures such as the Forth Bridge and Glenfinnan Viaduct. Our railway provides a vital lifeline, not just for commuters between our seven cities, but for our rural communities and just in time goods to supermarkets too.

Safety

On 12 August 2020, Scotland's Railway suffered the devastating loss of a customer and two railway colleagues when a ScotRail passenger train derailed near Stonehaven. Driver Brett McCullough, conductor Donald Dinnie, and passenger Christopher Stuchbury died in the accident, while six other people on board the train suffered injuries.

This incident has had a profound effect on our industry, and we've been working to support the multi-agency investigations into what happened and support all those affected by the tragedy. Network Rail provided two updates to the Secretary of State for Transport on 28 August 2020 and 16 March 2021.

This tragic incident also highlighted the growing impact our changing climate is having on how we need to run our railway. Immediately after Stonehaven, Network Rail commissioned two independent taskforces led by Dame Julia Slingo and Lord Robert Mair to review how we should manage weather events and earthworks. Their reviews were published on 17 March 2021. Network Rail is reviewing the recommendations and is developing action plans.

We've created and fully embedded a safety taskforce in Scotland's Railway. Our focus is on engagement with our frontline colleagues and contractors and how we implement changes to improve their safety in planning and carrying out work on our railway.

Our lost time injury performance has been inconsistent in 2020/21 although we did see an improvement in the second half of the year. There have been 40 workforce and contractor injuries this year, resulting in in our Fatality Weighted Index (FWI) being behind target.

We've seen a reduction in the number of pedestrian near-miss events in the past year. This has been delivered through a combination of education, enabling, enforcement and engineering. We're recording fewer injuries each period, however our FWI performance was still dominated by injuries resulting from slips, trips and falls. In November 2020 we ran a Sure-Footed campaign designed to reduce the number of these incidents across Scotland's Railway. In addition, road traffic accidents continue to present the biggest risk and a driving improvement plan is underway.

Scotland's Railway is changing the way it thinks about safety through leading a shift in safety culture to make sure we get everyone home safe every day. The first steering group meeting took place on 5 February 2021 and engagement sessions with our top 40 leaders and key influencers of our frontline colleagues have taken place.

Train Service Delivery

In a normal year Scotland's Railway runs more than 2,500 passenger trains - carrying commuters and long-distance business and leisure travellers - and up to 50 freight services every day. At the height of the pandemic we adapted quickly to changing travel patterns and public health guidance, reviewing the timetable, making sure we were supporting passengers who needed to travel. Scotland's Railway Train Service Performance in 2020/21 showed real and sustained improvement.

Our public performance measure (PPM) performed well throughout the year, with strong underlying infrastructure performance, reduced passenger numbers and a lower number of train services all contributing to achieving 93.1 per cent. The PPM shifted from 88.8 per cent in April 2020 to 93.1 per cent in March 2021. Great performance is key to passenger satisfaction and achieving this milestone shows the strong progress we've made to give passengers and freight users a punctual and reliable train service. While achieving this is an important milestone, our target remains at 92.5 per cent moving annual average (MAA) for the rest of the Control Period to 2024, so we still have work to do to maintain this level of performance as passengers begin returning to Scotland's Railway.

We made progress throughout the year with several initiatives relating to improving train performance. The platform extension works at Milngavie station were completed, providing greater resilience and service reliability on the network. In addition, the review of the timetable through the Scotland performance sub-group was asked to 'Build Back Better' to help implement a higher performing timetable than that in place before the pandemic, which will bring more resilience in the longer term.

Efficiency

Overall financial performance on Scotland's Railway was worse than target, largely because of the impact of Covid-19 related costs and unplanned costs associated with extreme weather-related incidents in August 2020 and February 2021. Underlying business performance, however, remained strong, particularly in support of PPM measures, and work continues on forward planning for the remainder of Control Period 6 (CP6) and into the early part of CP7, with an emphasis on asset resilience and driving down costs, and working across boundaries with ScotRail and Transport Scotland on whole-industry efficiency.

Covid-19 costs included extra staff costs, vehicle costs, fogging costs (to disinfect premises) and reduced income from property and variable track access charges. Covid-19 has also resulted in delays to works at Queen Street (due for completion in 2021) and Kintore stations (completed October 2020) and track renewals, particularly the High Output track delivery team where specialist colleagues were unavailable during the early part of the pandemic.

Efficiency performance this year was better than target, delivering total efficiencies of £67 million. This was mainly due to improved unit rate delivery within earthworks, being partially offset by increased track unit rates and deferral of signalling schemes and their associated efficiencies to later in the Control Period.

Recent reviews have highlighted the need to strengthen further the governance processes for efficiencies that were embedded at the start of the Control Period and an action plan has been mobilised and will be fully implemented by the end of June 2021.

Throughout the course of the last financial year, there has been a reduction in available risk funding mainly due to the impact of Covid-19 on Scotland's Railway and other cost movements across the portfolio. There is a projected £60 million remaining in risk funds for the remainder of the Control Period with on-going reviews considering how to reduce down costs and so increase the level within the fund.

Sustainable Growth

Building on the announcement from the Scottish Government's Cabinet Secretary for Transport, Infrastructure and Connectivity in July 2020, a rolling programme has been developed to create a greener Scotland by decarbonising Scotland's Railway by 2035. This will include electrification of large parts of the railway, replacement of rolling stock, along with gauge, depots and stabling, and enabling works to decarbonise Scotland's Railway and encourage passengers and freight users to switch from road to rail.

The delivery of our asset renewal programme was showing an improving trend from the start of the year but was impacted by the deferral of significant track renewal projects on the West Coast Main Line because of Covid-19. Due to planning timescales these projects could not be recovered in the financial year, however additional maintenance works were completed to sustain asset reliability in the short to medium term, minimising the risk of asset failures affecting the train service.

Infrastructure reliability met the target set for the year. However, the impact of climate change on our assets cannot be underestimated. Extreme weather in August 2020 saw heavy rainfall over a short time that significantly impacted the resilience of parts of the Scotland's Railway network, particularly around earthworks, drainage and structures. This included the earthworks failure at Carmont, Stonehaven and the destruction of a section of the Edinburgh-Glasgow line at Whitecross, which was washed away when prolonged heavy rain caused a breach of the adjacent Union Canal. While investigations are ongoing, plans are being implemented to help prevent similar incidents in future.

Customers and Communities

The spring 2020 National Rail Passenger Survey showed that passenger satisfaction at our managed stations continued to be strong, with Glasgow Central increasing to an overall score of 90 per cent and Edinburgh Waverley improving to 88.5 per cent. In the year, Scotland's Railway received 6,997 queries and 1,268 complaints from the public. Over 96 per cent of complaints were dealt with and closed within the 29-day target. This was an improvement of almost five per cent on the previous year. The total number of enquiries received was lower in the year, due in particular to the lack of station-related enquiries during periods of lockdown.

People

Our people strategy recognises the opportunities of the Putting Passengers and Freight First (PPFF) organisational change programme and embedding the new structure implemented in 2020. PPFF gives the opportunity to set an agenda that's more closely aligned with the needs of Scotland's Railway, taking account of the socio-economic policies and drivers that are specific to Scotland, by moving decision making directly into the region. This also enables the forging of greater links with Scotland's communities, universities and colleges, including supporting career opportunities, and positioning Scotland's Railway as a diverse and inclusive community partner and employer of choice.

Recognising the challenging environment, including the recommendations made by recent reviews, and the effects of Covid-19 and decarbonisation, we're working to ensure continuous improvement alongside the most efficient use of taxpayers' money. We're focussing on strategic workforce planning, training and development for our people, as well as succession planning, early engagement and targeted recruitment to ensure business continuity and diversity in our workforce. Our aim is to empower our people always to be safe, to care about the railway, its users, each other, and put teamwork at the heart of all we do.

Two members of Scotland's Railway were awarded MBEs this year. Simon Constable, route operations manager and

Dave Williams, stores coordinator were recognised for their contributions to the Covid-19 effort, within the railway and the wider community, during this challenging time. Simon and Dave worked tirelessly throughout the pandemic to support and protect colleagues and offer vital help to vulnerable groups.

Something we're proud of

One particular area of success for Scotland's Railway over the last year has been the engagement and interaction with all our colleagues on the Scotland's Railway bi-weekly Teams live calls. These calls are a really useful way to keep teams across the network informed. They connect leaders with colleagues right across the business, we share what's happening across the network, and how we're continuing to adapt to keeping the country moving. The Q&A platform provided by the technology we use is really helpful for addressing key questions and we answer as many questions as possible in the time available. For example, there was a suggestion early in the pandemic on adding messaging to personal protective equipment (PPE) to encourage the public to keep their distance. This proposal was swiftly put into action and newly branded high-visibility vests were rolled out to front line colleagues across Scotland's Railway, starting with level crossing teams who could be in close contact with the public.

Something we need to improve

Safety is always a priority on Scotland's Railway. We are focussed on two areas for further improvement, slips, trips and falls and road accidents. We are seeing too many colleagues being injured. As a result, there is a renewed focus on how we shape our safety culture and a renewed commitment to everyone home safe every day.

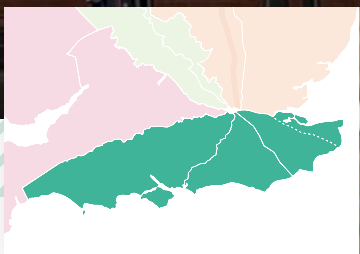
Plans for the year ahead

Scotland's Railway's focus in the year ahead will be playing our part in helping the country recover from Covid-19. As the country begins to emerge out of lockdown, we'll have to make pragmatic decisions to balance service levels against the cost of running a railway for what we expect to be reduced passenger numbers.

To help attract customers back to the railway we have to provide a safe and reliable service and we're making strong progress in achieving that. There is though much more to do to protect the railway from the increasing frequency of adverse weather events. September 2020 to March 2021 were incredibly challenging for Scotland's Railway and there is a critical need for renewed focus on how we respond and manage severe weather in particular.

As part of the Scottish Government's ongoing investment in Scotland's Railway, Network Rail is supporting Transport Scotland in the development and delivery of its strategic transport projects review. Through a pipeline of projects, our railway will support Scotland's social, economic and environmental needs, realising the benefits of rail for communities and businesses across Scotland. We will also drive forward the next planning and delivery stages of the rolling programme of decarbonisation, supporting the Scottish Government's ambitions for net zero emissions.

SOUTHERN



John Halsall
managing director, Southern
15 July 2021

The Southern region comprises of Wessex, Sussex, and Kent routes as well as Network Rail High Speed. We link major towns and cities, including Bournemouth, Southampton, Portsmouth, Brighton, Canterbury, Ashford and Dover to each other and the capital.

We're responsible for managing large London stations such as Waterloo, London Bridge and Victoria and every day carry large numbers of commuters to and from the capital as well as serving Gatwick and Southampton air and seaports. We operate the busiest and most congested rail lines in the country and how we perform impacts the lives of millions of passengers, our lineside neighbours and the freight companies that depend upon us.

Safety

Tragically, on 9 February 2021, our colleague Tyler Byrne was struck and killed by a train whilst working near Surbiton station. This overshadowed everything else that we achieved in the year. It was also a stark reminder of the risks of working on the railway and how we must never take safety for granted but continually challenge ourselves to improve. We're giving our full cooperation to the ongoing investigations, including that led by the RAIB, to make sure that we understand and address how this could have happened. We must learn from this terrible incident so our people and passengers are confident that they will get 'Home Safe Every Day'. Consequently, and unacceptably to the Southern leadership team, we missed our key safety target, fatality weighted index (FWI).

Whilst our track worker safety programme, reducing the need for colleagues to go on or near the railway when trains are operating, made good progress this year, it's clear that we still have more to do. We're determined that our programme challenges the status quo of how we've traditionally done things, and that we innovate and embrace new, modern and safer ways of working.

We also missed our personal accountability for safety target. The main reason was an increase in the number of motor vehicle speeding offences. Social distancing measures meant that we needed more operational vehicles to get our people to and from sites safely and notably over half of all speeding offences occurred in hire vehicles. Speeding awareness campaigns were held across the region in response to this. The introduction of a new telematics system in our own vehicles will also help curb this increase giving drivers real-time information on speed limits and their driving speed. It will also introduce benefits such as safety check lists and automatic tracking of vehicle usage making it easier to know when vehicles are due for service.

Train service delivery

Before the coronavirus pandemic there were more than 700 million passenger journeys per annum made in our region. But this year we saw a huge downturn in the demand for travel as people began to work from home and only undertake essential journeys. Against this background, train service delivery was strong across all our routes. Trains arriving on-time out-performed the target by some margin. Whilst we're very proud to have delivered such a good service for our passengers through the pandemic, we recognise that the timetables we've been operating, with fewer train services to reflect the fall in passenger demand, were much more resilient and easier to recover when things went wrong. However, the period really highlighted the trade-off between train service performance and capacity, and we've taken the opportunity to better understand the capabilities of the rail network and how we can build back a more robust timetable with our train operators.

A highlight of collaborative work with our operators was the excellent on-time performance of Southwestern Railway (SWR) on the Wessex route. This was in stark contrast to last year when restoring the performance of SWR was one of the biggest challenges we faced. The reduced timetables and lower passenger numbers contributed to this, but along with SWR we capitalised on the quieter traffic to drive forward some of our performance initiatives, such as the programme to remove long standing minor track faults and the associated speed restrictions which were hampering train punctuality. We've also delivered for our freight customers with a lower cancellation rate than targeted, helping freight companies to keep vital goods moving around the country.

Efficiency

We delivered over £120m of efficiency improvements this year, in line with target, despite the challenge of the pandemic which impacted both our costs and revenues. With the drop in passenger numbers, the amount of retail and property income we received from our managed stations was nearly 80 per cent down on expected levels and, with fewer trains running, we saw a drop in the income train operators pay us to operate their services. We also incurred substantial costs in mitigating Covid-19. This included additional PPE, stricter cleaning regimes, additional vehicles and staffing to ensure tasks could be undertaken safely, and signage and posters for passengers at our stations. Some of these costs will continue to be incurred into 2021/22 and, along with the fall in retail and property income, have had to be factored into our future financial plans.

The delivery of our capital programme, renewing and upgrading our assets, was strong with very few projects deferred due to fewer trains running as a result of the pandemic. However, we did not meet our financial performance target for renewals. We've seen increases in the cost of delivering track renewals and, following the very wet winter and spring, there was a high number of expensive emergency repairs to earthworks. One notable project impact of the pandemic was the loss of Hither Green signalling renewal from Easter 2020. We worked with the train operator Southeastern to reinstate the work during a nine-day blockade in July when we also undertook the opportunity to complete extensive platform improvement works. The new signalling system was successfully commissioned on 3 August 2020.

Sustainable growth

Against the backdrop of the pandemic we were proud of how, in collaboration with the supply chain, we kept the investment programme on track and our delivery of enhancement milestones exceeded our target.

The project to increase capacity and improve the passenger experience at Gatwick Airport station is in the construction phase. The public consultation into the Croydon Area Remodelling project has now closed and the proposals were supported by 90 per cent of respondents to the consultation. We've applied new principles for all our major enhancement projects with the objective of identifying opportunities to accelerate work, reduce time and therefore lower costs.

Our environmental sustainability index also exceeded our target, driven by lower energy usage. This was largely a result of many of the retail units at our major stations being closed through large periods of the pandemic and has been in part offset by additional diesel consumption as more vehicles were needed by our workers to maintain social distancing. Waste diverted from landfill and recycling exceeded our target for the year. A trial at Victoria station for refuse sorting worked well and is planned to be rolled out across all our managed stations.

Customers and communities

The reduction in passenger numbers during the pandemic provided us with an opportunity to accelerate some additional works and undertake these in a more efficient manner, such as using longer blockades when no trains were running.

Such an approach means that we don't have to return to work sites over several weekends to complete works, which is the more typical approach when trains are full. Not only is this more efficient it can minimise the overall disruption we cause. The aspiration is that when passenger numbers return towards normal levels, we can build on what we have learned during the pandemic and change how we access the railway to undertake maintenance in the least disruptive most efficient way possible. Despite these additional works, through good communications with our lineside neighbours, customers, and passengers, we achieved our complaints handling target, although this remains an area of focus for us.

The pandemic also had a profound effect on our train operator partners. Most had to rely on support from Government to mitigate the financial effects of a massive reduction in revenue from ticket sales associated with the dramatic fall in passenger numbers. We supported the DfT and the train operators with the development and implementation of new contractual arrangements put in place to ensure that train services continued. The new arrangements support greater collaboration between various industry partners, and we commenced a programme looking at how together, we can be more efficient and reduce duplication. We've also created the London Transport Alliance which our regional managing director jointly chairs alongside the managing director of Southeastern. This group seeks to coordinate, at a very high level, our response to Covid-19 across London.

During the year we also worked closely with the supply chain, passenger and freight operators, and other industry parties to prepare for the end of the EU withdrawal period. We identified risks, such as the potential impact on the supply chain and disruption to road and rail transport at seaports and agreed plans to manage them with a command and control structure to keep close contact with the wider stakeholder group. The UK's departure from the EU ultimately passed with little impact on the running of the railway, but the Southern region was pleased to play its part by helping to distribute food and water to lorry drivers stranded on the Kent motorways and lorry parks over the Christmas period.

People

During the year we made progress on the Putting Passengers First programme and establishing our new operating model for the Southern region. The final organisational changes were implemented in September 2020 and were accompanied by a programme exploring how we could work better together for our passenger and freight users and create the Southern putting passengers first movement. Employee engagement was strong, but we recognise that there is much more work to do to make the Southern region a truly inclusive employer that reflects the rich diversity of our passengers and the communities we serve.

Something we're proud of

In 2020/21 train performance was strong, we embedded a new regional operating model and we stayed on track with our capital investment plans despite the backdrop of a national pandemic. The many challenges that the coronavirus presented us with really brought out the best in our people who worked tirelessly and flexibly to keep the train services running. Collaboration with train operators also grew stronger as across the industry people came together to tackle the crisis.

Something we need to improve

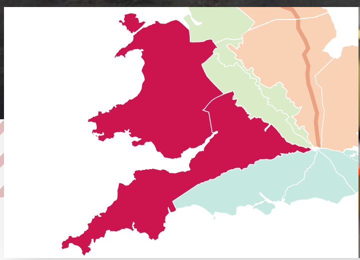
Yet, while we showed great agility in our response to the pandemic, we must apply the same determination and rigour born out of this threat to accelerate our track worker safety programme and drive forward our safety vision. The fatal incident in the year was a stark reminder of the inherent dangers of working on or near the railway and the need to continually challenge, innovate and improve how we undertake our work to keep our people safe.

Plans for the year ahead

We recognise that the pandemic has fundamentally changed the economics of the wider rail industry, emphasising even more the importance of and the need for rail reform. Southern region is ready and excited to play its part at such a critical junction in our industry's history.

So next year, our priorities will be delivering and embedding our track worker safety programme, successfully navigating out of the pandemic, and fully supporting rail reform. We will be focussing on collaborating with train and freight operators, the supply chain and other industry partners to encourage people back to rail, to do things more safely, more efficiently, and play our part in restoring the economic prosperity of the South East.

WALES & WESTERN



Mike Gallop
interim managing director, Wales & Western
15 July 2021

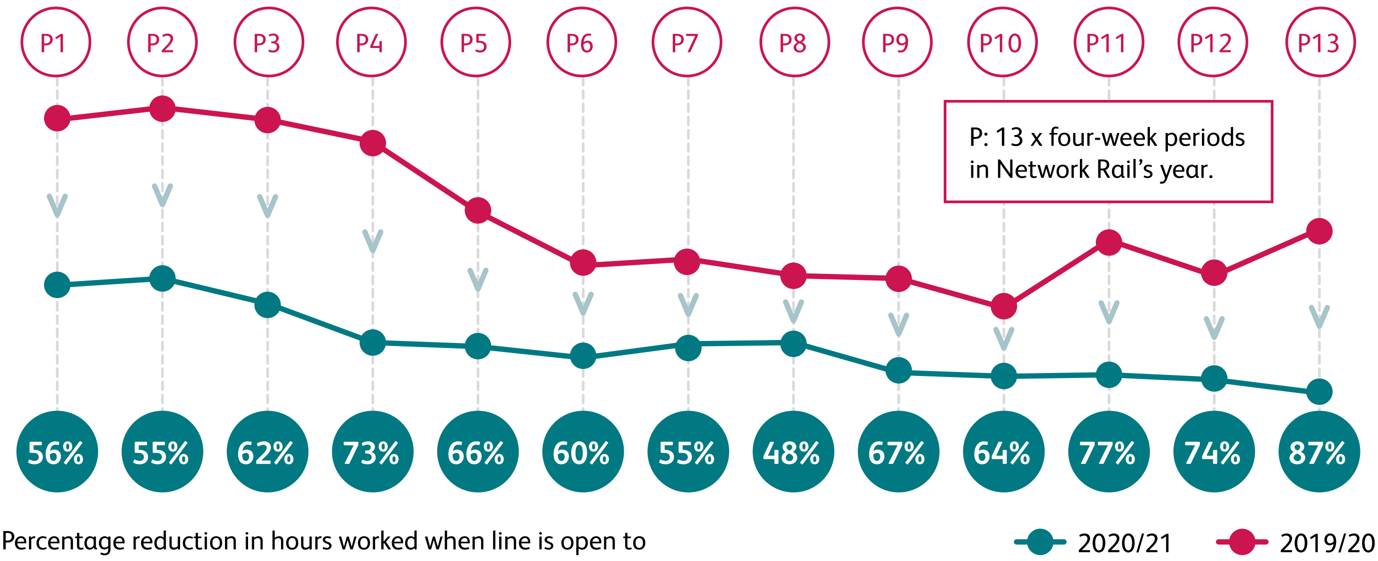
Connecting two nations and two capital cities – we serve people, businesses, and communities the length and breadth of Wales and borders, Oxfordshire and the Thames Valley, west of England and the south west peninsula. We connect people and freight to international airports and ports including Heathrow.

Safety

Our workforce accidents have reduced both in number and severity and we've seen fewer passengers getting injured at our managed stations. We failed to deliver our fatality weighted index (FWI) target but achieved all other safety targets. We know that three-quarters of our accidents are preventable, and we had events planned to improve FWI. Although Covid-19 forced the postponement of planned workshops with frontline colleagues, next year we plan to use our new engagement vehicle for a series of face-to-face safety improvement events.

The Rail Accident Investigation Branch (RAIB) published its final investigation into the tragic loss of Gareth Delbridge and Michael 'Spike' Lewis at Margam, South Wales in July 2019. The findings highlighted the need to improve our safety culture and assurance activity. We've increased our staff numbers to deliver our cultural improvement programme and committed an initial £38m in Control Period Six (CP6, 2019-24). In comparison with 2019/20, we've already achieved a 60 per cent reduction in the average number of hours colleagues have worked on the track while trains are running.

2020/21 was challenging for frontline colleagues as well as those adapting to home working. Colleague safety and wellbeing has been a priority and 190 mental health first aiders have been trained to support colleagues with their own or other's mental wellbeing. We also held virtual wellbeing events to support colleagues through the challenges of the pandemic.



Percentage reduction in hours worked when line is open to timetabled trains (unassisted lookout and other warning systems)

In August 2020 a freight train derailed near Llangennech, West Wales causing a major fire and diesel spillage in an area of international environmental importance. We won praise from industry partners and our stakeholders for our response to the recovery operation. Work at site included the skimming of 22,500 litres of contaminated soil and water, as well as the excavation of 12,000 cubic metres of contaminated ground. The event wasn't caused by an infrastructure failure but has prompted a refresh and improvement of our resilience plans, especially for key freight routes.

Train service delivery

We kept all our railway lines open for passenger and freight services despite the challenges of Covid-19. In response to the drop in passenger numbers our timetable was reduced but as passengers were able to return we worked with our industry partners to 'build back better' and provide more on-time services. We expect the future needs of passengers to change significantly. Our priority is to deliver a timetable that provides the right balance between capacity and world class performance and reliability.

New trains were introduced for Heathrow Express services using the European Train Control System (ETCS) that continuously calculates a safe maximum speed for each train. This implementation was the first of its kind on the Heathrow branch and demonstrated strong collaboration between Network Rail and our stakeholders.

Extreme weather continued to impact train performance with railway lines affected by flooding in Wales. As well as developing schemes to increase resilience across our network, we now have a team to focus on weather risks and mitigations, working jointly with our industry partners.

As a region we move over 500,000 tonnes of freight per week and this has been a vital service in keeping goods moving during Covid-19. We exceeded our targets for freight performance, but improvements are still required especially at Merehead and Whatley quarries.

Efficiency

Responding to Covid-19 meant we spent an additional £19m in 2020/21 with a further £10m expected in 2021/22. This included funding to ensure frontline colleagues could work safely through the pandemic, following public health and construction industry guidance. We hired over 100 additional road vehicles to enable social distancing when travelling to and from worksites and provided enhanced personal protective equipment and handwashing facilities. Where required we also recruited temporary resource to cover colleagues who were self-isolating.

Despite these challenges we continued to manage our business within our CP6 funding settlement. Our teams and the supply chain responded quickly to implement new ways of working and to deliver our plan for infrastructure renewals. For some assets we delivered more than planned due to efficient delivery. We used our CP6 risk fund to pay for the additional Covid-19 costs.

We delivered £10m more in efficiencies than planned. We're also planning to deliver an additional £52m in 2021-24 and we remain committed to meeting our CP6 efficiency targets. Covid-19 has impacted the implementation of some efficiencies, but we're developing new plans particularly around the use of more technology.

Sustainable growth

We continued to deliver our planned infrastructure investment to benefit passengers and communities, to support economic recovery, and to help sustain our supply chain during the pandemic.

Electrification of the Severn Tunnel was completed in May 2020, providing a seamless electric link from South Wales to London for the first time. Work also started on our three year £25m restoration of the Grade II listed Barmouth Viaduct, demonstrating our long-term commitment to this vital transport link for communities in North West Wales.

We've been developing a master plan for Oxford station. This is part of a wider plan to transform west Oxford into a nationally significant innovation district.

In Devon and Cornwall, we successfully delivered sea wall works at Marine Parade, Dawlish. Construction also started on the second section from Coastguard to Colonnade breakwater. This uses an eight-legged, walking jack-up barge called a 'Wavewalker' to install foundations at the sea wall. The new promenade will provide a more spacious and safer surface for the public, protecting the town and the railway for the next 100 years. A lift is also being installed at Dawlish station for the first time, creating easier and safer access between both platforms.

We started the two-year refurbishment of the station roof at Bristol Temple Meads. This contributes to a wider vision of transforming the station to be a world class transport hub. We're also actively involved with the Bristol Temple Quarter regeneration programme and to support this we purchased the original Brunel train shed.

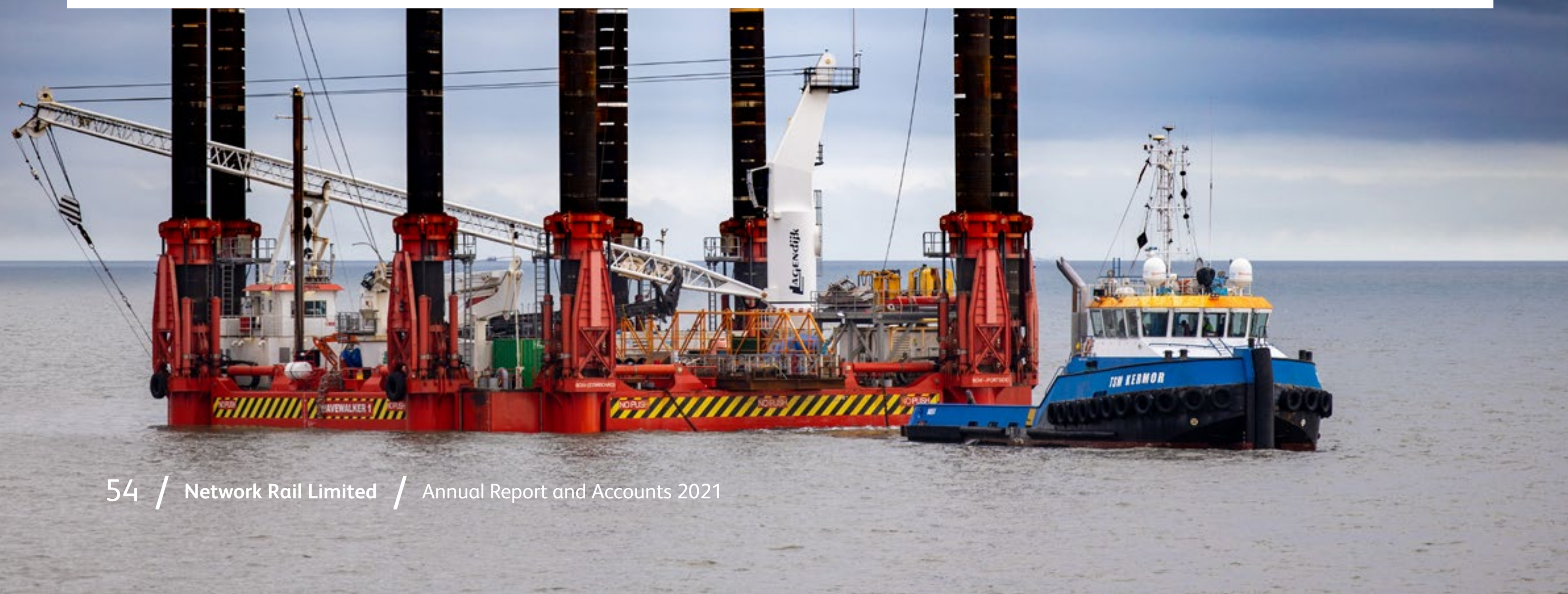
At Gipsy Patch Lane in Bristol, we installed Britain's heaviest precast concrete bridge to provide room for new bus lanes and shared use cycle and pedestrian pathways. The installation over-ran by two weeks due to the hydraulic transporter becoming stuck in soft ground, so we completed a lessons-learned exercise to prevent incidents like this from reoccurring.

Customers and Communities

In 2020-21 we had fewer complaints from the public about our work, and we addressed them more quickly. We carried out extensive community engagement to support our projects, including the St Ives £3m track upgrade, Conwy Valley Line resilience work and the restoration of the Heart of Wales line.

We received public complaints at Llanfairfechan in Wales about the environmental impact of our improvement works. In response, we engaged extensively with the public and carried out additional ecology surveys to reassure the community and our stakeholders that we take our environmental responsibilities seriously. In Dawlish, we listened to feedback from more than 1,600 community responses for our planned resilience works along a vital 1.8km stretch of railway between Parsons Tunnel and Teignmouth. We decided to revise the proposals further and have delayed the submission of our planning application until we can consult the local community again in summer 2021.

Throughout the pandemic, we issued consistent and regular communications to passengers on the steps taken to comply with government restrictions and make it safe to travel. We demonstrated our support for critical workers



by lighting Royal Albert Bridge, Plymouth Bridge, Britannia Bridge, and many of our stations in blue. Colleagues across the region also assisted the NHS to build a mass vaccination facility in Exeter.

Great Western electrification has delivered significant regional benefits to passengers including faster journey times, modern trains, more seats, and greener travel. To help highlight this we published 'Our Electric Future', setting out the economic benefits of electrification within the areas we serve.

At London Paddington we installed new seats in the lawn area and provided more charging points. Public Wi-Fi is also now available, and we've recruited 14 new customer service assistants to provide greater support to passengers.

Reading station won Major Station of the Year at the National Rail Awards. The recent refurbishment of the Brunel arcade toilets, new free water fountains, and increased seating have contributed to enhancing the customer experience and we were incredibly proud to see this recognised.

People

Our people are at the heart of our region and future success is dependent on how we develop, empower and invest in them. Ensuring our employees are motivated and proud to work for the region has remained a focus and our employee engagement measure has increased from 55 to 58 per cent. We introduced Pulse Surveys to regularly assess employee views and will continue to act on the results. A priority has been to provide more direct human resources support to frontline managers and we achieved this through the creation of new support roles. This has helped free up manager's time to focus on safety and performance.

66 per cent of our workforce will be eligible for retirement over the next 15 years, so addressing the potential loss of skills and knowledge is a priority. We've therefore strengthened our teams in strategic resource and talent management. At the start of the pandemic, we transformed an old depot in Newport, South Wales, into a state-of-the-art training centre to ensure we had enough skilled railway signallers throughout the crisis. We also opened a new signalling training centre in Bristol Parkway to train the signallers of the future.

More than 300 colleagues have taken part in our Great People Manager course, with over 145 completing all five modules since 2019. This course upskills managers and prospective managers in areas including performance management and recruitment, coupled with behavioural based training focussed on how we interact with each other at work.

Something we're proud of

While passenger numbers were low, we accelerated some work into 2020-21 which was originally planned for later in the year. The acceleration means more services can run during summer 2021 due to less engineering work taking place at this time. As an example, the extension of a line closure in Bristol presented us with an opportunity to carry out extensive overhead line inspections. These inspections would normally take 96-night shifts but were completed in just one week.

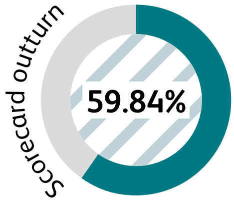
Something we want to improve

Fewer than 20 per cent of our colleagues are female and just nine per cent are from black, Asian and minority ethnic backgrounds. We're proud of the improvements we've already made but the numbers fall considerably short of our aspirations. Our diversity and inclusion strategy is at the heart of this, setting out a pathway towards creating an inclusive environment that attracts and retains the best people from the diverse communities we serve.

Plans for the year ahead

Safety will remain our top priority and we'll continue to improve workforce safety and provide mental health and wellbeing support as we recover from the pandemic. We'll encourage passengers back to the railway, delivering a reliable timetable and supporting economic recovery. We recognise that the industry must become more efficient and work even more collaboratively through industry reform and we've already started work to reduce costs for passengers and taxpayers. We'll continue to enhance our network and will be remodelling Bristol East Junction to allow trains to come in and out of Bristol Temple Meads more easily and to increase capacity for additional services. We'll support the Crossrail project by completing readiness of our infrastructure to support services between Reading and Shenfield. We'll also continue to work with Welsh Government and Transport for Wales to support improvements to cross-border connectivity and the development of regional Metros.

ROUTE SERVICES



Route Services works closely with our customers, the regions, routes and supply chain to deliver better outcomes for passengers and freight users.

We provide our customers with critical support including IT, telecommunications, storage and transportation of materials, training and procurement, as well as payroll and payments to our suppliers. We employ over 6,000 people in depots, training centres, offices and other locations throughout the country who deliver around 60 different services. Route Services has increased in size over the last two years as additional services have been added. The restructure of Network Services in March 2021 resulted in further growth, forming a single place for providing support to regions and routes. As a result, we're now made up of seven primary teams:

Asset Information Services (AIS)

collects, analyses and shares data and intelligence about Network Rail's infrastructure assets and maintains some of Network Rail's key asset systems and tools.

Business Services (BS)

manages the support systems needed to keep Network Rail working effectively, including Human Resources services, training, our National Records Group, and financial systems and processes.

Commercial and Procurement (C&P)

strategically sources and manages contracts of scale in order to optimise value for money across the network.

Engineering Services (ES)

improves performance and reduces risk through efficient and effective delivery of multi-disciplinary design and engineering services.

Information Technology (IT)

shapes, builds and runs the information technology services needed to support the railway, now and into the future.

Network Rail Telecom (NRT)

is responsible for delivering the telecoms connectivity that underpins the operational railway and the corporate estate. Telecoms is a fast-moving and technology-rich discipline and we are experts in developing and deploying technology in the rail environment. Our specialist telecoms services and insight enable the routes, regions and rail industry to deliver continuing, improved operational capability and performance benefits for passengers and freight users.

Supply Chain Operations (SCO)

delivers the logistics, materials, components as well as rail and road fleet that enable the maintenance and renewal of the railway, whilst minimising disruption to passengers.

In reviewing the year, the metrics we use to track our progress provide a good overall view of how we're performing. However, they don't fully demonstrate the challenges we overcame to safely provide our services in the face of the Covid-19 pandemic, as well as some significant achievements and notable lows during the year. The most serious of these came in November 2020 when Kevin Mauger, a colleague at our rail welding facility in Eastleigh sadly lost his life. This has had a devastating impact and is a heart-breaking reminder that we must do all we can to prevent similar incidents occurring in the future.

The last twelve months have been an unprecedented time for passengers and operators as well as our customers and colleagues. As the UK entered a national lockdown at the start of the year, the Route Services IT team worked quickly to enable homeworking for all colleagues who wanted and were able to work from home.

Throughout this time, our teams have worked closely with customers and suppliers to understand and reduce the risks inherent in this new environment. We introduced immediate payment terms for suppliers; procured and distributed thousands of sanitising products across the business and supply base; speeded up the rollout of new tools to help teams work more effectively together; and extended our support to the NHS by managing logistics operations during the construction of the Manchester Nightingale Hospital.

Despite the challenges the pandemic has presented, we've continued to deliver on our Control Period commitments and further improve our services. During the year, we've successfully opened the remaining sites in our network of regional distribution centres across the country to provide materials and equipment more quickly and efficiently to where they're needed by our customers.

Over the past few years, together with our customers, we've invested in the recruitment, training and development of the next generation of Network Rail engineers, operatives and managers and we're now seeing the benefit of this investment. This year, Network Rail was ranked 20 in a list of the top 100 apprenticeship employers, a scheme run by Business Services.

Overall, our performance in 2020/21 was good and that's reflected in our scorecard result (59.84 per cent). We're progressing well on our Control Period (CP) promises and have built on the foundations of our performance last year to put us in a strong position to deliver for our customers, passengers and freight users over the remaining three years and into CP7.

Safety

We measure our safety performance by the number and severity of injuries to our workforce (fatality weighted index) and the number of times our life-saving rules are breached (personal accountability for safety metric). In 2020/21, we did not meet the challenging targets we set ourselves at the start of the year.

We recognise we need to make a fundamental change to our safety culture. We want to create and sustain a culture where we are caring, inclusive, trusting, mindful of risk, open to sharing and able to learn as an organisation – we call this Safe Service. To deliver this, we've developed and launched our Safe Service transformation programme.

During the year, we have increased our focus on occupational health, undertaking monitoring against five areas of occupational health risk, including respirable dust (particles that can be inhaled and reach the alveoli in the lungs). We have led on the recommencement of an industry-wide group to mitigate and control silica and ballast dust exposure throughout the supply chain and to continue to raise awareness.

Train Service Delivery

In our ongoing commitment to putting passengers first, half of our scorecard for the year has covered metrics and services that could have a significant impact on train service performance. Some of our services support the maintenance and renewal activities done by the regions, they do this by measuring and correcting the alignment of the track and by delivering materials to renew the track, signalling and supporting equipment. Occasionally, delivery of these services does not go as planned and the lines are unable to reopen on time causing delays to journeys. We recognise that the lower number of services operating due to the pandemic has meant that when incidents have occurred, they haven't caused as much delay as they would have normally. That said, we're pleased to report 30 % fewer minutes of delay to passenger and freight services than in the previous year which represents a tangible and impactful improvement.

We achieved a key milestone in our plans for CP6 this year by introducing a new milling train onto the network. This train is used to remove the very top of the rail where there are sections of wear and light damage. This extends the life of the asset meaning it requires less frequent replacement therefore saving money. The other major benefit of milling rather than replacing the rail; it is less disruptive to passenger and freight services as it requires fewer planned cancellations which would otherwise be necessary to provide safe access to the track for workers.

Efficiency

At the start of CP6, Route Services committed to delivering services more efficiently, equating to savings of £370m. Following the internal transfers of other Network Rail teams into Route Services, and additional efficiency commitments to support the wider industry and economic position in the UK, this target has now increased to £433m. Having completed year two of the Control Period, we've achieved just over £161m with £113m being delivered in the year which is over £40m more than planned at this point. The main achievements have been:

- £20m from working innovatively with the supply chain to maintain cost-effective production of sleepers without the need to build a new facility
- £17m through more efficient haulage to support the services we deliver within Supply Chain Operations
- £9m via improvements in the management of our fleet of road vehicles and associated hire costs
- £7m through modernising the way we deliver training to our customers, taking advantage of new technology.

As well as delivering these direct savings, we enabled our regional customers to make further efficiencies through the work of Commercial & Procurement. This was mainly through the sourcing of new contracts and this year we outperformed, enabling £68m of savings against a target of £53m.

Sustainable growth

In Route Services we're committed to Network Rail's sustainability vision to serve the nation with the greenest, cleanest mass transport by providing the most sustainable products and services to our customers. This year, Supply Chain Operations has exceeded our targets by recycling 99.5% (target 98%) of material returned to them following replacement and upgrade of infrastructure assets by routes. This year we've also progressed our plans to move to an ultra-low emission fleet with a trial of electric road vehicles.

In the latter part of the year, members of our IT services team launched a scheme to refurbish and donate more than 8,000 laptops to schools. This will help pupils to continue to learn at home during and after the pandemic and supports our sustainability goals.

People

Route Services is powered by our people. We rely on each other every day to bring our diverse skills and knowledge into the workplace. The way we work collaboratively across Route Services is exactly how we solve challenges and deliver value for our customers. For several years we've set targets to improve the representation of female staff and those from a Black, Asian and Minority Ethnic (BAME) background, recognising the huge benefits of a diverse team. We're making steady progress in this area (both female and BAME representation increased by 1% in the year and are now at over 29% and 12% respectively) however, while the metrics may be improving, we still have a lot of work to do to create an inclusive and safe environment for everyone.

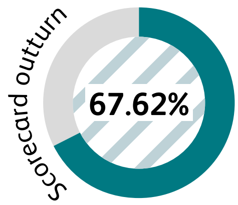
As per the statement on page 70, we have commissioned Slave Free Alliance to review our approach to modern slavery who are undertaking a gap analysis and will be making recommendations. In addition Route Services Commercial and Procurement (C&P) undertook a review of the approach to managing risk across the supply chain over the life of contracts. This realised an opportunity to formalise and strengthen the approach to modern slavery, after contract award. These actions are part of the 2021/22 strategic priorities for the C&P team.

Plans for the year ahead

Our number one priority for the coming year is the implementation of our Safe Service programme. The programme covers three main areas:

- **Our People** - developing a safety culture; reviewing engineering capability and ensuring the right levels of skills and competences
- **Our equipment** - reviewing and strengthening the full life cycle of our machinery and train maintenance equipment
- **Our Business** - establishing a more complete understanding of and ability to manage safety risks.

NETWORK SERVICES



Network Services was created in June 2019 as a direct response to the Putting Passengers and Freight First (PPF) programme and was set up to support Network Rail's routes, regions and functions to bring operational excellence back into the heart of the organisation.

It provided network operational, freight, telecoms and technical expertise as well as coordinating national programmes and initiatives to help deliver for passengers and freight customers.

There were six teams in the directorate: Network Strategy and Operations, National Passenger and Customer Experience, Freight and National Passenger Operators, Network Rail Telecom, Operational Programme Delivery, and Technical Services.

In April 2021 the teams within Network Services were transferred into five other parts of Network Rail where they continue their important work as part of further efficiency initiatives to provide the best operational service for our customers, passengers and freight users.

Safety

Network Rail began responding to the Covid-19 pandemic in February 2020. Network Services led the response through establishing and leading the Strategic Crisis Management Team.

Network Strategy and Operations implemented the 'recovery post fatality' workstream. This is a cross-industry plan made up of ten individual workstreams – including CCTV access, trespass and British Transport Police (BTP) engagement – to better predict, prevent, respond and recover from fatalities on the network.

The Stranded Passengers team in Network Services were responsible for leading industry-wide improvements in the management of stranded passenger incidents which included refreshed guidance, procedures and training courses.

Network Rail Telecom worked closely with routes, BTP and the National Crime Agency on Operation Shareholder. The objective of the operation was to protect telecom sites against arson attacks and confrontations following the conspiracy theory linking Covid-19 to 5G masts.

The Network Services Health Safety and Welfare Council was well received and encouraged open and honest participation from the executive, trades union leads and local health and safety representatives. We also achieved a Fatally Weighted Index (a method that works out safety performance) target of 0.005 per cent against a target of 0.011 per cent.

Train Service Delivery

Teams across Network Services developed the Network Operating Strategy – the overarching document for Train Service Delivery. The complementary System Utilisation Definition document (how we want the system to operate) was progressed in tandem and presented at a ministerial briefing in February 2021.

The Operations Interface team developed Acumen, an operational decision support tool, using internal expertise which is being piloted at four operational locations and delivering benefits to improve the service we provide passengers and freight users.

The Intelligent Infrastructure team developed an enhanced decision support tool called Insight. It is now live with the first Track and Signalling capabilities. The enhanced data will give maintenance teams a clearer view of the performance of assets and help them to make more informed maintenance decisions, leading to fewer asset related delays, making the service more reliable for freight and passengers.

Freight customers had a relatively strong year in terms of performance (Freight Delivery Measure), which finished on 94.2 per cent against a target of 94 per cent. The number of net tonne miles of goods carried was down on the previous year given the impact of the pandemic, but the sector did manage to recover 98 per cent of traffic pre-Covid by year end. We supported that recovery by enabling customers to run longer and heavier trains and will continue to both grow rail freight with innovative ideas and to optimise how we use the network to benefit the sector.

We completed the procurement process for the European Train Control System (ETCS) Integration Facility which provides a commercial facility to support the installation and testing of ETCS Level 2 for future digital train signalling deployments, including on East Coast Main Line south.

Customer and Communities

We are particularly proud of how we supported our freight customers to deliver vital goods up and down the country during the pandemic. Through collaboration and careful planning, we were able to increase about a dozen trains a day, some up to around 775 metres in length, each carrying around 12 to 14 extra containers. To further complement this, work to transport more freight by rail to and from Southampton was completed in February 2021 enabling longer freight trains to operate between Southampton, the Midlands and the North.

Network Rail Telecom supported train operating companies (TOCs) and broader industry on a service that enables announcements and pre-recorded messages to be broadcast to passengers during disruptions on trains.

Network Rail Telecoms and the Corporate Finance team have been working together to progress Project Reach – a third-party investment opportunity supporting new high-capacity fibre cable which will serve the railway's current and future telecommunication needs.

The year end for CrossCountry performance was 92.9 per cent against a target of 85 per cent. While Caledonian Sleeper hit its Right Time target of 80 per cent ending the year on 84.9 per cent.

People

Network Rail Telecoms vastly improved Wi-Fi access across the corporate estate, spanning over 90 locations. The team also rolled out Wi-Fi calling across the business to circa 29,000 mobile phones to help colleagues work remotely during the pandemic.

The Network Services talent management strategy led to a closer working relationship with the Institute of Railway Operators (IRO) and has so far funded 28 IRO academic courses for operational colleagues and a further 26 have been funded through the regions and routes.

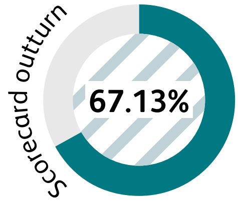
Sustainable growth

Network Rail Telecom also carried out specialist surveys at 75 GSM-R mast sites as part of the aligned government asset reuse plan. We are working with DfT to see if some of our railway telecoms equipment can be reused to give passengers a better signal, and to better connect railway neighbours and nearby communities. By reusing railway telecoms equipment already in place along the railway, we can help bring better connectivity to many more people in communities across Britain.

Efficiency

Different standards in place at some third-party sites and the competence of those doing work was difficult to assess. The Freight team helped standardise the Third-Party Infrastructure Code of Practice which provided documentation for good practice on risk-based sidings inspection and maintenance.

SYSTEM OPERATOR

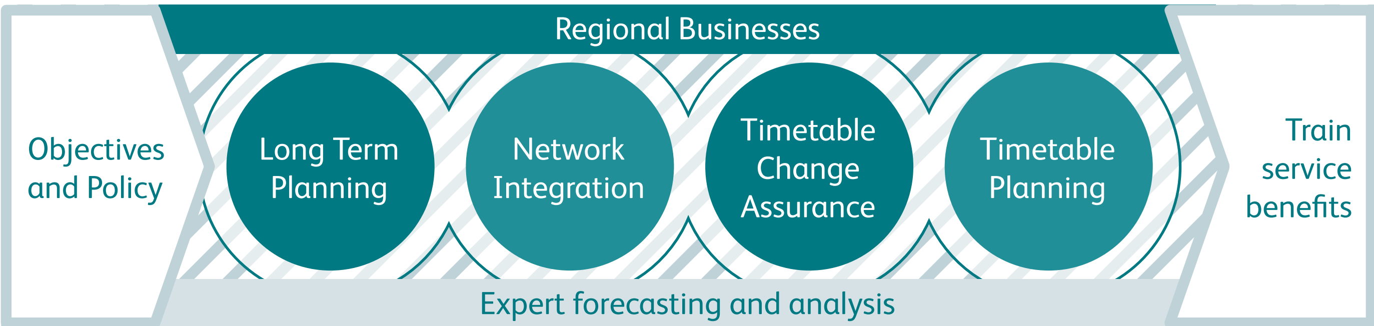


The Putting Passengers First (PPF) programme strengthened the accountability and responsibilities of the System Operator. Working with regions, it reinforced the need for an impartial function that has a line of sight across the railway with accountability for its integrity. Earlier in 2021 the System Operator merged with elements of the Network Services function, including operationally-focussed teams to bring us closer to our customers, passengers and freight users.

Our purpose as the System Operator is to make sure the railway operates as one and is both seamless and high performing. We do this by working as a partner across the railway to support the delivery of high levels of safe and efficient performance – contributing to an excellent experience for passengers, freight and our customers.

Our focus is on improving what the railway is capable of by planning for the future, providing high-quality analysis and advice, producing the timetable, and managing industry-wide relationships.

Our Operating model



* The Operating model does not take account of the organisational changes announced on 20 January 2021 which will be incorporated in a later revision.

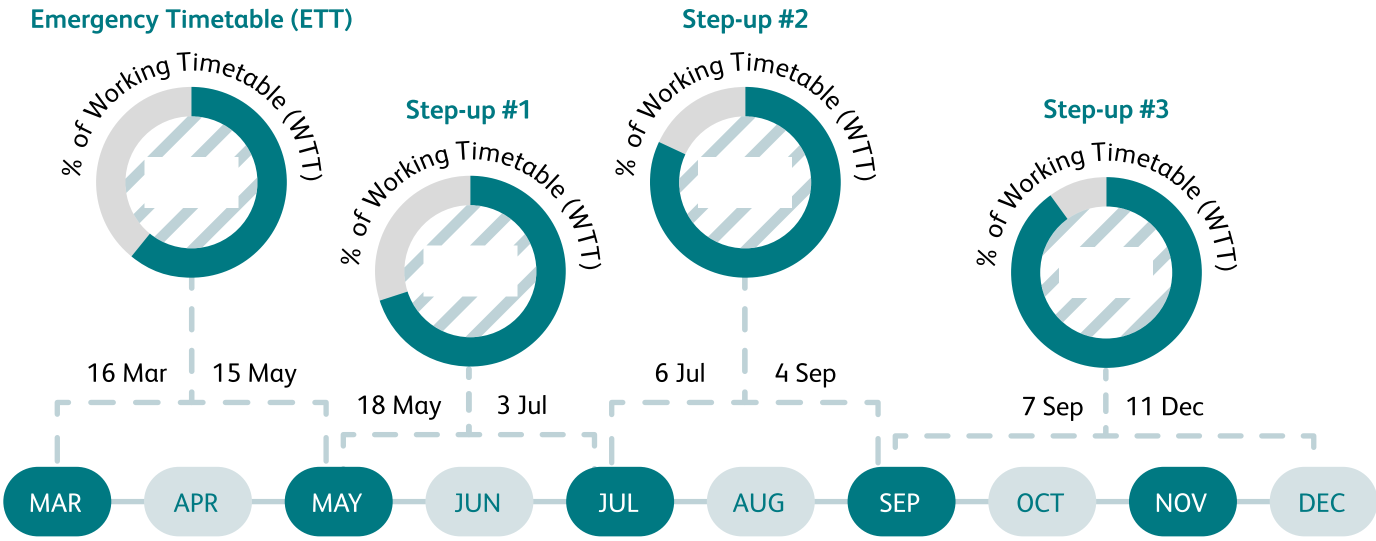
Safety

We recognise the importance of safety-by-design which is why the contribution that can be made to the safety of the railway system is incorporated into our competence frameworks and the emerging work on the strategic planning profession. Our PPF programme has increased the accountability of strategic planning in the regions. As System Operator we remain accountable for making sure there are consistent standards and a clear framework for all to work to. But providing guidance and oversight has its challenges as each region is different and we realise we need to get the right balance.

Risk management has developed over the last twelve months with the pandemic bringing the industry closer together in a good way. The industry timetable change steering group and the System Operator PMO have extended the timescales for their assurance of timetable readiness, enhancement and planned rolling stock status. The forward view of future timetable change has better enabled the industry to assess the scale and risk of individual timetable changes with effective resource plans. This should also help us to better deliver on our commitments to develop a timetable and assurance process that is right for our passengers and with fewer errors.

Train Service Delivery

Our response to the pandemic required the industry to collaborate in the development and implementation of rapid changes to the timetable to reflect lockdown restrictions which led to very short notice implementation of emergency timetables. The team moved to an agile production model and delivered five major timetable changes (instead of the standard two) in March, May, July, September and December 2020 and also processed much higher levels of short-term plan (STP) change.



We're working with the industry to review the timetable process that we adopt from 2022/23 onwards to retain the benefits of agile and locally responsive timetabling which better meets the needs of passengers and freight users.

We recognise that our response to the pandemic has affected the flow of timetable information to passengers. Passengers currently don't have enough notice of timetable changes to make informed decisions about their travel. This is a concern and something we're working with the industry to get back to where we should be.

During the year we also implemented business continuity plans, and continued delivering for our customers by:

- providing daily station passenger footfall reports to enable regional teams to respond dynamically to demand
- establishing a cross-industry coronavirus demand forecasting group and working with the industry on creating rail passenger demand forecasts and scenarios which have been updated as the pandemic has unfolded.

Efficiency

Alongside improvements to the timetabling process mentioned above, the industry timetable technical strategy (ITTS), which has been developed by our team with significant input from across the industry, sets out how we will get more out of technology to produce timetables that deliver passenger and freight customers' expectations. It will enable us to produce better performing, more responsive and efficient timetables. We still have a lot of work to do in developing a sustained technological change that works with the train operators' systems. These are challenges that resonate across the industry and we are committed to improving this critical aspect of how the railway delivers for its customers.

We've automated some aspects of the timetable development process that help us set train routes more easily and make passengers' lives easier with more accurate stopping in stations. And we've also developed technology that enables us to make small changes to timetables faster. We're excited about the benefits this programme will bring in the years to come.

Customers and Communities

In June 2019 the Government set a target to achieve 'net zero' greenhouse gas emissions by 2050. The Department for Transport asked the rail industry to explore whether it would be possible to remove all diesel-only trains from the network by 2040 in England and Wales. The Scottish Government also set a target to decarbonise domestic passenger rail services by 2035. We have responded to the ask by working with industry to demonstrate an achievable path to remove emissions from the trains that carry passengers and freight.

We've made improvements to how the Sale of Access Rights (SoAR) process is structured to make the process easier for train operators who require access on the railway and help our operators have the access, where possible, to deliver on their commitments. We continue to work with the industry to agree proposals to reduce risk of late submissions, improve train operator timetable bids that align to what has been agreed in the access bid, and reduce the potential risk to the effective delivery of the timetable for our customers. We've yet to deliver the information management for the SoAR due to the financial impacts of the pandemic and have since paused implementation pending further review. Without the information management process, the need for an increased level of staff involvement remains necessary.

We have demonstrated that freight plays a key role in removing greenhouse gas emissions from transport, now and in the future, through our Traction Decarbonisation Network Strategy. Working with industry we have set out how freight growth can be accommodated with passenger growth around London in the medium and longer term to continue to grow the sector. We have also completed the draft overarching Freight Strategy that can feed into the Whole Industry Strategic Plan. This draws on existing cross industry workstreams and knowledge to present a comprehensive and coherent information set. The final version will make a series of network-level, whole industry recommendations and will inform other regional and network strategies.

People

The further development of our professions, including timetable and strategic planning and the creation of our people plan (early in 2021) have enabled us to strengthen the ways in which we support our teams to be successful in their roles and develop their careers. We have started to use blind recruitment sifting as one of our processes to support an increase in diversity.

With more than 15 per cent of the United Kingdom's population estimated to be neurodivergent – meaning that the brain functions, learns and processes information differently – we are re-assessing our recruitment processes to become more inclusive of this otherwise untapped pool of talent.

One of the key changes the team have already implemented is the introduction of practical testing as part of the recruitment process. This helps to lessen the pressure and anxiety experienced by people with neurodivergent conditions when they are presented with open questioning and group activities during interviews.

Something we want to improve

The impact of the pandemic is clearly reflected by timetable errors impacting train performance (incidents causing delay). It was challenging for us to deliver multiple rewrites of the timetable during the pandemic, initially to reduce and then increase train services which resulted in lower quality results during this period.

The main reason for this has been the need to reduce time spent by the team on timetable quality in order to process the increased volume of short-term changes.

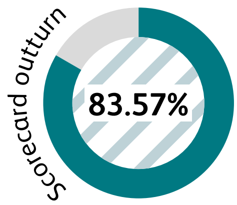
As the country moves out of the pandemic this is an area we want to improve to deliver higher quality timetables with fewer errors for our passengers, freight end-users and value for money for funders.

Plans for the year ahead

Our focus for the coming year is to work in partnership with the regions, the DfT, Transport Scotland, other funders and stakeholders, and the wider rail industry to:

- Improve the capabilities and processes of the System Operator, including the development of network integration capability
- Take a lead on the production of robust timetables as the industry continues to respond to the challenges resulting from the pandemic. This will include adapting the timetable development process to deliver benefits in timetable planning technology and work towards the delivery of the ITTS.
- Continue to improve the framework for capacity allocation including changes to the sale of access rights, policy and processes, and the network code, and
- Support effective implementation of the rail reform agenda, including the development of the whole industry strategic plan and new train operator contractual arrangements and train service specifications.
- Deliver the transformation of the System Operator, following the merger with Network Services, to deliver an effective and cost-efficient organisation.

TECHNICAL AUTHORITY



The Technical Authority was established during 2020 as a centre of expertise, accountable for setting technical guidance for Network Rail and the railway system. We cover safety, health and wellbeing, environment and sustainable development, security, engineering, technology, capability, compliance and incident investigations.

We find creative ways to apply technology for a better railway, cut red tape and provide strong competence and assurance regimes to manage the railway effectively. To achieve that we're closely connected with UK and international institutions and businesses from the Railway Safety Standards Board (RSSB) to the International Union of Railways (UIC).

High profile activities include tackling safety, health and wellbeing risks to our workforce, reducing the emissions of the railway and adapting to climate change. Our research, development and innovation (RD&I) with technology underpins improvements in these areas and is critical to drive a more cost-efficient railway.

Safety

Our Safety Task Force has led changes to help reduce the risk of trackworkers being struck by trains and, since July 2019, we have 60 % fewer instances where teams are working alongside tracks carrying train services. Near misses have halved this year, with the number of near misses every period reducing and hours worked between incidents continuing to increase.

However, despite this work, this year we've experienced a series of tragedies where colleagues and a passenger have lost their lives. These incidents have further focussed our resolve to urgently deploy technology and redouble action on safety culture. Taking steps to prevent similar events happening in the future is our top priority.

The Safety Task Force has put in place a plan in all routes, bringing existing safety initiatives into the task force and introducing new goals for planning and technology. This includes a focus on improving our safety culture, the non-technical skills capability of our front-line teams and ensuring health and well-being of our people.

Two independent task forces were established following the Carmont derailment in August 2020. Further information on these can be found in Environmental Sustainability (pages 71 to 76). The earthworks management task force, led by Lord Robert Mair, made over 50 recommendations, which are now being prioritised for implementation.

Public safety at level crossings remains a priority. Following last year's launch of our strategy for Enhancing Level Crossing Safety 2019-2029, we're reinforcing effective collaboration with all stakeholders to improve level crossing safety. We recognised that our assessment of the case for enhancing level crossings could be improved based on the risk to vulnerable users. We updated our All Level Crossing Risk Model to help us better understand how to manage the risk at each level crossing so far as is reasonably practicable.

In 2020/21 we worked with local communities and private landowners to close a further 32 level crossings, the most effective way to improve safety. And we've developed affordable technologies, including Meerkat, which helps users cross safely.

We've partnered with industry and stakeholders to tackle railway trespass by sharing good practice; talking with under-18s, a hard-hitting advertising campaign, improving the security of our infrastructure, and setting an innovation challenge to monitor and manage access to prohibited areas of platforms. Fatalities are now at an all-time record low and trespass amongst under-18s is down by at least a quarter despite potentially increased opportunities for trespass given school closures during 2020.

Train Service Delivery

A major challenge this year has been to adapt rapidly to unprecedented circumstances. We responded to stakeholder priorities for the coronavirus pandemic with a contingency plan. Emergency standards were issued to our regions enabling greater technical decision making at a local level.

We continue to focus on creating an 'intelligent infrastructure', developing new technologies to sense, monitor and analyse equipment. This reduces failures and enables maintenance teams to take a preventative rather than reactive approach. Faults with the track are now managed from identification to fix through a system, TIGER, that was first introduced in October 2019 and has now been rolled out across all regions.

We've developed a decision support tool to help electrification engineers reduce the amount of time spent on track and physical work undertaken. The tool is being trialled in North West & Central region before national roll out as part of our intelligent infrastructure programme.

Efficiencies

The costs of managing infrastructure are a major part of Network Rail spend. Technical Authority guides, and identifies opportunities for, regions to increase the cost-effective life of assets and reduce demand for future renewals. We're supporting efficient planning for Control Period 7 (CP7) through whole life cost models, learning from across Network Rail, internationally, and through the results of our R&D.

Having encouraged organisations throughout the railway industry to challenge our standards and propose better ways of working, we've received 44 challenges over the year. We estimate the opportunities from new and updated standards so far in CP6 are worth £30.5m. With over three quarters of a million visitors to our webpages on standards, we remain focussed on our work to streamline standards. In June 2020 we made standards available free of charge as part of our wider efforts to support small and medium-sized (SME) companies. We recognise there is more to do with standards to unlock innovation and we are collaborating with other transport infrastructure managers to further improve standards under the Transport Infrastructure Efficiency Strategy.

March 2021 saw an early release of our strategic solution, Digitised Lineside Inspection from our R&D portfolio, to manage the health of, and safety risk from, trees and plants including ash die back disease. This will build towards a full release in 2022, offering £100m potential net benefits delivered in the next 20 years across the network.

We've developed a new concept for reducing the height clearance between bridges and overhead wires, Voltage Controlled Clearances. Implemented at the Cardiff Intersection Bridge, it's saved reconstruction costs of £40m and can now be applied network-wide.

Longer term efficiencies are also being progressed. Our greatest renewals challenge over the next 15 years is to replace signalling that has reached the end of its life. We cannot achieve this with current methods without disrupting services for passengers and freight and increasing investment. The Target 190+ programme takes a broad view of the challenge and works with industry to halve the cost of renewing our signalling from CP8.

Despite the substantial increase in R&D, and efforts to achieve early deployment, we understand that we need to do more to drive the pace of development and deployment of technology. We have made a start through our R&D Portfolio by showing that routes, regions and the Technical Authority can work together to go from challenge to solution in under a year.

Much of our R&D is done in partnership with other organisations. We've been awarded over £40m of funding from other organisations over the last 2 years, in addition to the shared investment achieved through our role in the European Shift2Rail partnership. These collaborations help to strengthen capability in our supply chain and promote industrial growth. They are a vital part of rapid development and deployment of new technology at scale.

Customers and communities

Recognising the issues that broken lifts and escalators present to passengers, new sensors now provide live data on these facilities in many stations. We've offered this data to app and web developers so they can create travel planner apps to provide information to passengers on lift and escalator availability. Combined with other data, and predictions from artificial intelligence, we're also helping maintenance teams keep lifts and escalators in service whilst optimising inspection, servicing and replacement.

We've made significant progress to improve the quality of footbridges and stations, key parts of the railway for customers and communities. The AVA footbridge brings a new approach to making the railway accessible for all with quicker build, lower costs, minimal disruption and a positive architectural contribution. A competition, run with the Royal Institution of British Architects, drew 200 entries internationally and generated opportunities to improve passenger experience at stations.

To complement our 2020 environmental sustainability strategy, we've been working on a new framework to maximise the social and economic benefits the railway brings to Great Britain. This includes our work to support routes out of homelessness, launched in October 2020 as a partnership with five national charities. This provides a focus for colleagues volunteering in community engagement and fundraising to tackle homelessness and brighten the future for vulnerable people.

People

Our training on mental wellbeing and health promotions continues, made visible through a health calendar published on our Safety Central web pages. We have progressed a 'back to basics' programme that includes a strong focus on legislative compliance such as drugs and alcohol testing, and an occupational health and wellbeing dashboard to visualise data that is now integrated and shared across Network Rail. Throughout the coronavirus pandemic we have continued supporting our colleagues, including a dedicated service offering support, information and guidance to those advised to shield. To date this line has received over 900 calls. To help keep our critical workers healthy, we delivered almost 8,000 vouchers for flu vaccinations. And to protect front line colleagues from the threat of violence, we trialled a body-worn video system providing a solution to a top security risk.

We continue to model and forecast occupational health trends of our people, in order to understand and plan our objectives and key deliverables. In 2020/21 our dashboard shows a positive reduction on our key metrics, however as colleagues return back to the office we will continue to monitor our data as it forms an important part of the evidence base to inform our strategic approach.

To build the capability and competence of our engineers, we've developed a new competency framework - Career Tracks - built around six role families and with five levels of competency. Career Tracks helps engineers to assess their current skills and knowledge and to plan their development. It also showcases the best engineering experts across the company for mission-critical problem solving, sharing lessons and best practice, peer reviews, retaining talent and mentoring.

The Technical Authority set stretching targets for diversity and inclusion, supporting Network Rail and the wider industry to achieve a more diverse workforce. We celebrated the role that women play in engineering and innovation as part of International Women's Day. To help accelerate the shift to a more diverse workforce, we've provided mentoring, training and challenges for our youngest talent – our graduates and apprentices – taking part in Network Rail's annual Digital Innovation and Collaboration in Engineering competition.

Success and opportunity

This year showed the pace and impact that could be achieved working with our stakeholders from suppliers to unions. Our response to priorities for coronavirus ranged from rapidly reviewing standards, to deploying thermal camera technology across our estate in eight weeks, to an award-winning success with designing, sourcing and supplying visors made from recycled plastic for front line colleagues in 16 days.

Plans for the year ahead

Our focus for 2021 will scale up the pace and impact achieved in 2020 and tackle priorities. We will reinforce safety culture through the Safety Task Force, review our arrangements to support the health and wellbeing of our people and apply recommendations from Lord Mair's report to better manage earthworks in future. We will enable our regions to extend the life of assets, achieve efficiencies from changes to standards, drive RD&I to support early benefits and establish arrangements to help Britain's railway benefit from the Government's investment in the Horizon Europe R&D programme.

OUR PEOPLE

Network Rail

43,871
employees

18.93 %

81.07 %

9.35 % black, Asian and minority ethnic
81.09 % white 8.08 % unknown
1.48 % prefer not to share

Of those who shared their data
5.16 %
indicated that they were LGBT+

8.56 % over 60
1.95 % over 65

2.65 % disabled
59.43 % non-disabled
36.81 % not known
1.11 % prefer not to say

Management grades

29.38 %

70.62 %

11.65 % black, Asian and minority ethnic
82.86 % white
3.6 % unknown
1.88 % prefer not to share

2.78 % disabled
63.67 % non-disabled
32.31 % not known
1.25 % prefer not to say

Of those who shared their data
6.74 %
indicated that they were LGBT+

Keep our people safe - our response to the pandemic

At the beginning of the pandemic, we acted quickly to support the government message of "work from home if you can". Our workforce comprises many workers who were expected to continue to be available for work, ensuring that the railway remained open for those who needed it.

For those who were unable to work from home, technology was improved, and innovative solutions were found to ensure that tasks could be done safely and meet social distancing requirements. We provided masks/face shields, adapted personal protective equipment (PPE) with social distancing messages, and installed clear, protective barriers. We worked closely with our supply chain, securing critical items of PPE to protect frontline workers. We supported colleagues who were shielding or self-isolating by continuing their pay if they could not work from home.

In response to our people's needs during this time, we produced a range of resources, easily accessible to all. This included webinars and toolkits covering health and wellbeing topics such as managing loneliness, isolation and fatigue, dealing with domestic abuse, and managing home-working and home-schooling (including activity toolkits for children), through to guidance for line managers on how to manage teams now working remotely.

Several of our people became wellbeing champions, volunteering to work with colleagues who may have been feeling vulnerable or just wanted a chat. Our employee networks provided weekly drop-in sessions which have grown in attendance and are proving to be genuine support mechanisms, bringing those who participate closer together.

In collaboration with our trade unions, we revised people policies relating to taking leave and managing absences and introduced a series of emergency standards to help keep our staff and passengers safe. These revisions and additions were regularly reviewed and revised to ensure that we stayed up to date with changing Government guidance.

Being efficient and sustainable

To plan for the longer term, a taskforce on future ways of working was set up with representation from across the organisation and from our trades unions. The group proposed an approach focussing on four key areas, all interdependent: technology; workplaces; leadership; and culture (people policies and processes).

The thinking drew on the established smart working guidance from Government; and employees across the organisation shared their views and concerns on the future of work through surveys and focus groups. A set of agile working principles was developed, focussing on where and when work could be done to give more flexibility in the future. A guide with frequently asked questions was produced to support discussions between line managers and their teams about working more agilely.

In 2020, we became an accredited Real Living Wage employer, which means that all our employees are paid the real living wage, and contractors who provide services such as cleaning and catering will also be paid the real living wage.

Eleven of our colleagues were recognised in the Queen's Honours, recognised for their outstanding contributions to their local communities and the railway during the last year. From supporting the NHS by leading the logistics at a Nightingale hospital, to raising thousands of pounds for charities, or changing the culture at Network Rail to make it a safer, more diverse place to work for everyone, our people have made real, tangible differences to the world around them.

Supporting our customers and communities

Having a diverse and inclusive workforce that is representative of the customers and communities we serve means we'll better understand the needs of our passengers and freight users.

Our 20by20 project came to an end. The project was designed to increase female representation in the organisation to 20 per cent by the end of 2020. Despite falling just shy of this ambitious target, we're proud to have increased female representation to 18.9 per cent at the end of 2020, up from 14.2 per cent at the beginning of Control Period 5 in 2015.

We've now switched focus from 20by20 to Gender Matters which sets out to build on the momentum to further increase the gender diversity of our workforce. We've set ourselves a new ambitious target to have 26 per cent women in our workforce by the end of Control Period 6 in 2024.

Our published 2020 gender pay report shows we remain below the national average of 15.5 per cent. We continue, however, to improve the way we attract, recruit and develop female talent. During 2020 we held four organisation-wide talent forums, developing a pool of potential future leaders and senior managers to fill business-critical roles. There was particular focus on action to increase diversity of female, and black, Asian, and minority ethnic (BAME) successors.

We've introduced two development programmes for emerging and mid-level leaders - both these national programmes have notably high gender and ethnic diversity compared with the Network Rail averages.

Work has continued on early engagement in schools and universities to make science, technology, engineering and mathematics (STEM) more appealing to female students. We celebrated International Women's Day by working with industry partners to run Britain's first all-female operated train running a commuter service from depot to destination. The schoolgirl passengers had the opportunity to talk to female representatives from across the rail industry about the opportunities available to them on the railway.

We launched our parental buddying scheme which supports new and existing parents, and we became an accredited White Ribbon employer, a symbol that we will combat domestic violence.

There has been much activity and focus on race matters. We published a report which described the experiences of our black, Asian, and minority ethnic colleagues and highlighted inequalities in recruitment, performance reviews and promotion opportunities. A series of focus groups were held which reinforced the report's findings.

In the aftermath of the death of George Floyd, we facilitated a series of virtual "Let's talk about race" conversations attended by nearly 2,000 colleagues, and we provided a toolkit for hosting similar conversations locally.

Our executive leadership team demonstrated their commitment to improving our culture by being involved in reverse mentoring relationships to learn what it's like to be from a minority background. Diversity and inclusion action planning is being led at local level by the executive and their teams.

We were one of the lead businesses during the first national Race Equality Week, with over 2,000 businesses from different sectors participating. Voluntarily, we published our second ethnicity pay gap report, which sees the gap going down from 7.3 per cent to 5 per cent. This is still greater than the national average of 2.5 per cent but is moving in the right direction.

The disability matters programme has seen us improving our knowledge in HR and amongst our line managers about providing reasonable adjustments for our disabled employees. As a disability business leader we guarantee interviews to disabled applicants if they meet the job criteria. We're also pleased that we're seeing an increase in the number of disabled colleagues and LBGT+ colleagues sharing their data with us. We are a disability-confident business, which means we guarantee disabled job applicants interviews when they meet the job criteria. Throughout the year we've had a significant increase in people who are disabled or from the LGBT+ community sharing their data with us, a result of a continuous campaign explaining why sharing the information is important to our business.

Helping our people deliver good service

Our ambition is for our people to be empowered to do their best work, supported by the best leadership they've ever had.

In 2019 we adopted a systems thinking approach to look at issues that were impacting our front-line colleagues in delivering for our passengers and freight users. Working with those who do the work and those affected, work is redesigned from a customer perspective through a series of interventions. This removes the hassles and barriers that prevent our people doing their best work, and gives them the capacity to manage safety, getting closer to the work to coach and understand what needs improving. Safety is a paramount consideration in all our interventions and, during 2020, we found safe ways of working together which allowed much of the intervention work to continue.

We're investing in our line managers through learning resources that have been developed by our managers for our managers, addressing issues that were identified in many of our interventions.

Understanding how our people are feeling was especially important during 2020. Every two years we run a full employee engagement survey, with the next one scheduled for September 2021. The results provide an employee engagement index (EEI) which gives a numerical value to how engaged our people are.

We ran our first wellbeing survey in June 2020, utilising email and QR codes to ensure that all colleagues had an opportunity to participate. In July we held our first pulse survey, providing a temperature check on employee engagement. Despite the effects of the pandemic, the EEI was 66 per cent – an increase from 57 per cent for the 2019 full survey. The highest scoring areas were safety (79 per cent) and proud to work for Network Rail (77 per cent).

A second engagement pulse survey was held in February 2021 with over 20,000 participants, 44 per cent of whom identified as being frontline colleagues. It was encouraging to see that 75 per cent of respondents were proud to work for Network Rail. However, there was a slight decrease in the EEI. While the pressure of the pandemic and lockdown could be contributing factors, we recognise that there's still lots we can do in this area.

Our executive leadership team has recognised the benefit of running pulse surveys as a temperature check in a given time and we're now running these 2-3 times a year, providing an opportunity to keep engagement part of our every day.

Social Performance

Social performance management is about running a railway that is socially responsible, sustainable, accessible and safe.

Risk of modern slavery

Network Rail is committed to addressing the risk of modern slavery in our business and supply chains. We commissioned Slave Free Alliance to review our approach; identifying gaps as well as what we're doing well. We await their final report and will act on their recommendations.

Volunteering

Network Rail colleagues can take five days volunteer leave each year to support charities and community projects. 1.7 per cent or 725 of our colleagues used one or more volunteer leave days in 2020/21, a total of 1,518 days. These figures are considerably lower than previous years due to the impacts of Covid-19.

Payroll Giving

The average number of colleagues donating per four-week period is 3,556. Their average donation is £12.80 per colleague per period.

Tackling homelessness

To mark World Homeless Day, our chief executive Andrew Haines joined Grant Shapps and Charlie Doyle from British Transport Police to sign the new Rough Sleeping on Rail Charter.

We implement this charter through our Routes out of Homelessness charitable theme which we run in partnership with five national homelessness charities. This work provides benefit to society and improves the passenger experience by providing outreach support to rough sleepers in and around stations and to date has helped 43 people into temporary accommodation and 6 into permanent accommodation.

ENVIRONMENTAL SUSTAINABILITY

Rail is already the most sustainable form of mass transport, but we want to be even more sustainable to become the cleanest, greenest form of mass transport in Great Britain. We published a new environmental sustainability strategy in September and have developed a strong plan to deliver it.

This is our most ambitious and forward-looking strategy to date and sets out the action we'll be taking over the next 30 years. It has four pillars: to make the railway low emissions by reducing our greenhouse gas emissions and improving air quality; to make the railway more resilient to the impacts of climate change; to improve the biodiversity that lives on our estate; and to reduce waste and use precious natural resources more carefully.

To complement our new environmental sustainability strategy, we've also been working on a new social value framework. This will help us optimise the benefits we deliver to our passengers, neighbours and the communities we serve. (See the Our People section on pages 67 to 70.)

Reducing our greenhouse gas emissions

Travelling by rail is already a low-emissions form of transport, as the rail industry contributes 1.4 per cent of the UK's total greenhouse gas emissions. However, it's important that Network Rail supports the UK Government's legal target of net-zero greenhouse gas emissions by 2050 and the Scottish Government's target of net-zero greenhouse gas emissions by 2045.

We produced the traction decarbonisation network strategy (TDNS) interim programme business case in response to the Government's challenge to the rail industry to get diesel-only trains off the network by 2035 in Scotland and 2040 in England and Wales.

We also published a plan which sets out our pathway to net-zero greenhouse gas emissions. We scientifically analysed all greenhouse gas emissions emitted during construction, maintenance and operational activities and set ourselves science-based targets to follow over the next 30 years to reduce emissions in line with what the latest climate science says is needed to prevent the worst impacts of climate change.

Streamlined Energy & Carbon Reporting 2020/21

Energy consumption used to calculate emissions	Amount	Units
Total electricity used	476,700,546	kWh
Total gas used	56,790,853	kWh
Total fuel for company fleet	276,499,071	kWh

Emissions breakdown – conversion factor kgCO2e

Scope	Emission category	Amount	Units	Conversion factor
Scope 1	Emissions from combustion of gas	10,442.1	tCO2e	0.18387 natural gas
Scope 1	Emissions from combustion of fuel transport purposes	66,947.9	tCO2e	2.16802 unleaded 2.54603 diesel 1.55537 LPG
Scope 2	Emissions from purchased electricity	111,138.0	tCO2e	0.23314 UK Grid mix
	Total gross CO2e based on the above	188,528.0	tCO2e	

Intensity Metrics		Intensity ratio
Number of employees	43,850	4.03 tCO2e / employee
Passenger kilometres (billions km)	12,502	15,079 tCO2e / bn passenger km

Methodology
We have used the EMA SECR tool which follows the GHG Reporting Protocol, populated with invoiced consumption and metered data.

Principal energy efficiency measures (PEEMs)
In 2020/21 we have delivered a half-day energy management training to 128 members of staff and also delivered the sustainability leadership training to 2 cohorts, consisting of the executive team and senior leaders across the business.

Our energy and carbon policy, which forms part of the environment and social performance policy, highlights energy reduction as central to Network Rail's responsibility to conduct its operations in a sustainable manner.

We are carrying out a rolling programme of installation of low power air-cooling systems at 315 GSM-R cabins to reduce their energy consumption, with 61 sites completed so far.

To implement our science-based targets we've set up our decarbonisation programme which is now in its second year. We're installing public electric vehicle charging points in our managed station car parks, with plans to install more in the future. We developed a renewable energy strategy which involved analysing our estate to identify locations where renewable energy can be fed into our power network. We've installed more than 900 smart utility meters to help improve our energy management and carried out more than 120 energy audits identifying potential savings of £3.8 million and the equivalent of more than 6,000 tonnes of carbon dioxide.

We're delivering energy management training to key Network Rail colleagues to help us manage energy more efficiently. We've begun to use new more environmentally friendly components during platform refurbishments helping to reduce the greenhouse gas footprint of the railway infrastructure. Beyond the programme we're also making good progress on other aspects of our greenhouse gas emission reduction plans and engagement with key stakeholders.

All of our non-traction electricity – this is the electricity that powers our offices and depots – now comes from renewable sources, and our traction electricity – the electricity used to power electric trains – is generated by nuclear power stations and therefore produces near-zero emissions. This completes the first stage of our energy strategy which aims to feed in 100 per cent renewable energy to our non-traction consumption by 2030. As part of our plans to phase out internal combustion engine vehicles in our road fleet, our fleet team has already begun to install electric vehicle charging points and replace our road fleet with electric vehicles as breaks in lease agreements allow.

A large element of our greenhouse gas footprint is produced by our supply chain. Tackling the greenhouse gases produced through the goods and services we need to build, maintain and operate the railway infrastructure will go a long way to helping us achieve our net-zero greenhouse gas targets. We've written to more than 75 of our major suppliers to explain the importance of reducing greenhouse gas emissions, encouraging them to set their own science-based targets, and asking them to work closely with us to deliver significant greenhouse gas reductions.

Improving air quality

Air quality forms a major part of our environmental sustainability strategy and our ambition is to continually improve it so that our passengers, neighbours and employees breathe healthier air.

We've listened to feedback that air quality in some of our managed stations could be better and have committed to air quality monitoring across our managed locations to establish baselines. From these baselines we'll develop management plans to reduce harmful levels of pollutants in locations where they are identified by at least 25 per cent by 2030.

We're working closely with the Rail Safety and Standards Board (RSSB) to implement a 100-station network wide programme for air quality monitoring. This programme will start later in 2021.

A reliable railway that is resilient to climate change

The reduced passenger services during the pandemic have led to reduced weather-related performance impacts on adverse and extreme weather days. However, we still experienced major disruptions due to flooding and landslips with the highest profile being at Carmont, Scotland in August 2020.

Last year we made good progress in assessing climate change vulnerability and formulating action plans for the remainder of Control Period 6 (CP6) with the publication of regional weather and climate change action plans (2019 – 2024) and finalisation of the chief engineer's asset climate change risk assessment and action plan. Implementing the regional plans will improve on-the-ground resilience and the asset plan will update policies, standards, procedures, and specifications to improve asset safety, reliability and performance.

The tragic derailment at Carmont has brought the devastating effects of climate change to the fore. Although Britain has one of the best safety records among European railways, and we generally manage extreme weather well, a fatal derailment in August 2020 has had a profound impact on the GB rail sector and further accelerated the work we are doing to keep our network resilient.

Immediately after the incident, we mobilised our engineers, specialist contractors and aerial surveying team to inspect earthworks with similar features. We conducted an intensive audit of assets across the country and reported in detail the state of resilience of our network. Pledging to learn lessons from the tragedy we also commissioned two separate taskforces led by independent specialists.

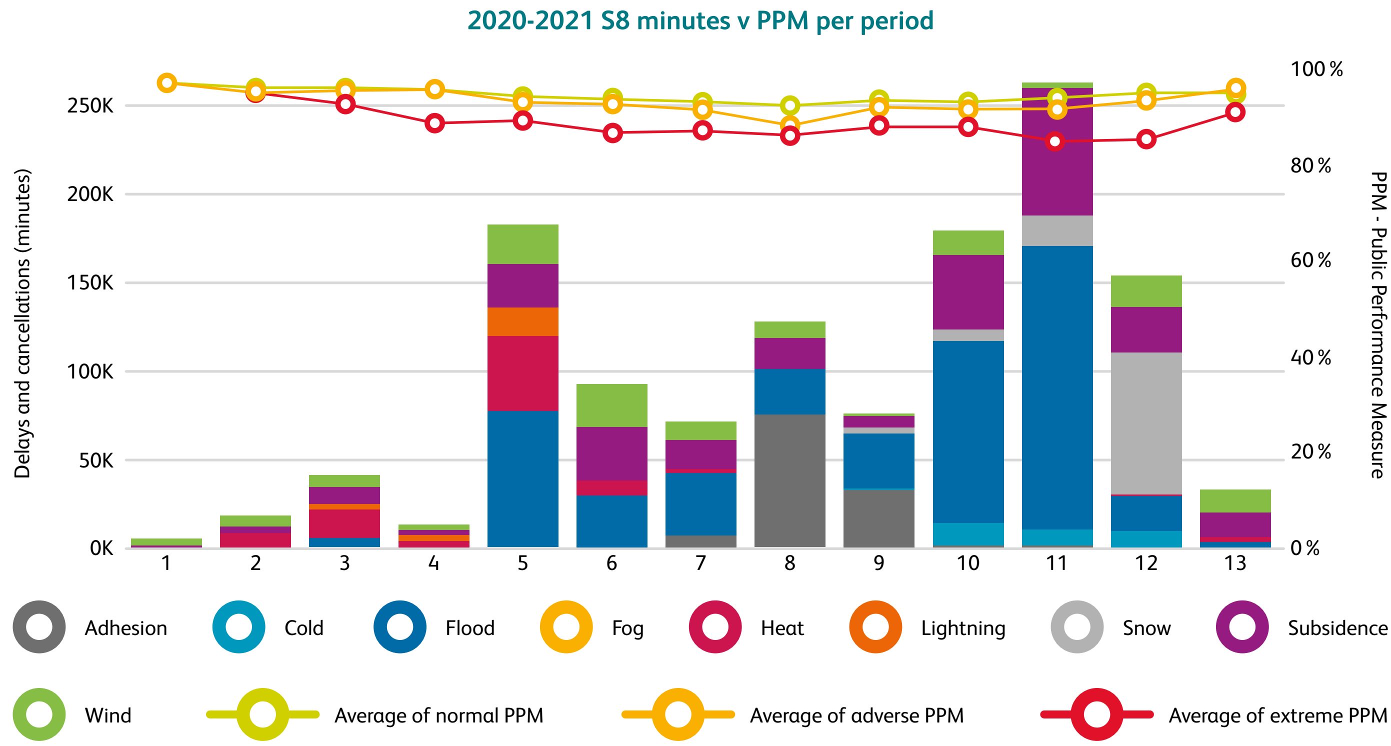
One review, led by Lord Robert Mair, looked at how to improve the management of our earthworks portfolio, looking at past incidents, the latest technologies, innovations, and best practice from across the globe. The other, was a weather advisory taskforce, spearheaded by Dame Julia Slingo, former chief scientist at the Met Office and a world-renowned expert in climatology. This looked at the risk rainfall poses to our infrastructure, drawing on the latest scientific developments in monitoring, real-time observations and forecasting. The outputs and recommendations from both taskforces will guide our work and help us make improvements to our asset management and operational preparedness.

Our research programme aims to understand the factors affecting asset resilience, vulnerability and criticality and the cost of making them more resilient. Our third adaptation report under the Climate Change Act will be submitted to Government by the end of 2021.

We continue to engage with Government, regulators, rail, transport and wider infrastructure sectors to share knowledge, collaborate on research, manage interdependencies and improve climate adaptation action and co-ordination.

Over the remainder of CP6, we'll implement the recommendations of the earthworks and weather advisory taskforces and continue to work on improved guidance, tools and research to support decision making on climate change risk including embedding the latest climate change projections (UKCP18) in risk assessments and designs.

The graph below provides an overview of the impact of different weather-related events for each of our thirteen, four-week periods in the financial year 2020/21. Weather events don't always cause drops in performance (e.g. extreme rainfall may not flood the railway) therefore, performance on adverse/extreme days can be higher than expected.



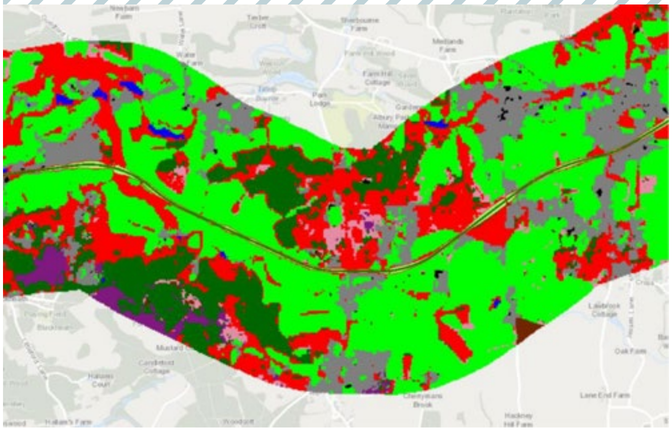
Biodiversity

We manage a nationally important wildlife corridor with responsibility for over 200 sites of special scientific interest (SSSI). While vegetation management must be carried out for maintenance and safety reasons, it's important we look after the plants and animals that live on our land while doing so.

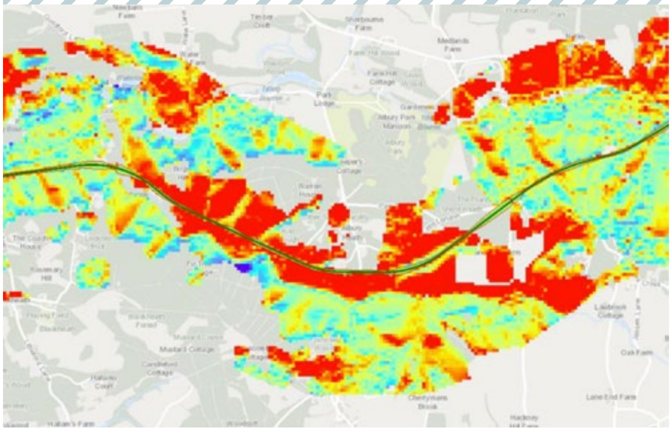
Following the publication of the Varley Review in 2018, we've made great progress in improving the way we manage biodiversity on our estate. Working through our sustainable land use programme, we're putting the building blocks in place to achieve our ambition to be an exemplar of sustainable land management .

Central to this vision is our recently published biodiversity action plan along with new procedures to protect and enhance biodiversity. Using satellite technology, we've mapped the different habitats on our estate to create a baseline so we can measure progress against our targets of no-net biodiversity loss by 2024 and biodiversity net gain by 2035. This biodiversity database, which is a first for Network Rail, will help us strategically manage our biodiversity and contribute to the recovery of nature across Great Britain. The database has revealed that our estate holds twice the national average of woodland cover , and that there are many areas where we can support the local conservation objectives by connecting isolated habitats.

We've rolled out training and awareness on how to manage our land sustainably. The training will help colleagues improve biodiversity through their daily duties alongside their important frontline activities. Our sustainable railway design guide will provide useful reference material for colleagues and help them manage our land more sustainably. We're also increasing the numbers of biodiversity and environmental experts across the business.



Map of habitat types within 1km of the railway



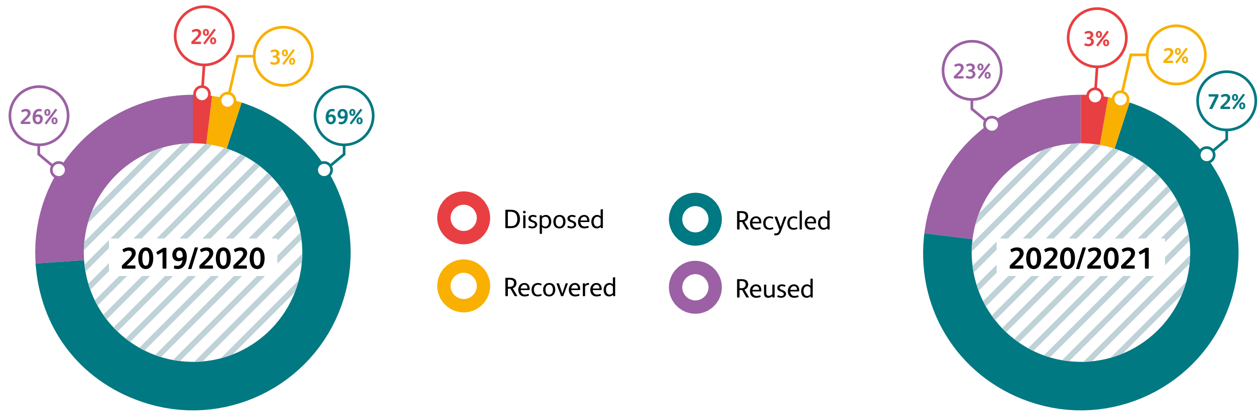
Map of net gain potential for pollinating species within 1km of the railway

Llangennech derailment

The derailment event at Llangennech in August 2020, as described on page 53, caused a significant environmental incident with over 300,000 litres of diesel spilled in a protected area, impacting the adjoining intertidal Special Area for Conservation (SAC) and Site of Special Scientific Interest (SSSI) sited in the Loughor Estuary. Specialist contractors were quick to respond to the incident and much of the fuel was recovered. Ongoing remediation over six months was necessary to extract and remove contaminated soil and monitoring is still taking place to check there is no further contamination. Investigations into the event and the subsequent environmental response are ongoing, with expected regional and national actions required to improve future response to significant events, but overall the multi-agency collaboration and the swift frontline response was successful in avoiding a significant environmental disaster.

Circular Economy and Waste Management

We continue to get better at waste management. This year the amount of waste we generated decreased by 20 per cent compared to 2019/20. We increased our recycling rate (72 per cent of total waste) and reduced the amount that we send to energy from waste plants (3 per cent of total waste).



		Eastern	North West & Central	Scotland's Railway	Southern	Wales & Western	Property	Route Services	Network Rail
Reused		47 %	75 %	20 %	19 %	20 %	0 %	8 %	23 %
Recycled		46 %	16 %	73 %	66 %	25 %	61 %	92 %	72 %
Recovered		3 %	7 %	2 %	12 %	4 %	39 %	0 %	2 %
Disposed		4 %	1 %	5 %	2 %	51 %	0 %	0 %	3 %

Sustainable use of materials is an important element of our strategy, and this year has seen a change in the way we manage our waste. Instead of buying and using products or materials and then either recycling or disposing of them at the end of their life, we'll begin to embed life cycle, or circular economy thinking into our business. This means that we'll aim to minimise use of resources, design out waste wherever we can and then reuse, repurpose or redeploy all surplus resources. We've embarked on a research project that will identify all the products and materials we use and opportunities to reduce their environmental impact.

RISK MANAGEMENT

Risk management is about anticipating the things that might happen between where we are now and where we want to be in the future, assessing how these could affect us (positively and negatively) and taking action to overcome any barriers to getting to our goal.

The purpose of Network Rail's risk management approach is to predict and react to these possible events that either threaten our performance or give us an opportunity to improve it. These threats and opportunities are collectively known as risks.

At Network Rail, it's vital that we effectively manage any threats in order to keep running a safe and reliable railway for passengers and freight, and that we make the most of opportunities to improve people's experiences of using the railway or working with us.

The environment we operate in is constantly changing. The impact of Covid-19 has created new risks, as well as opportunities to work differently in the future. Now more than ever, it's crucial that we're flexible in our approach to risk management and develop innovative solutions.

Governance, Risk, Assurance and Improvement

Risk management is part of Network Rail's wider governance, risk, assurance, and improvement (GRAI) framework. This is what it looks like in practice:

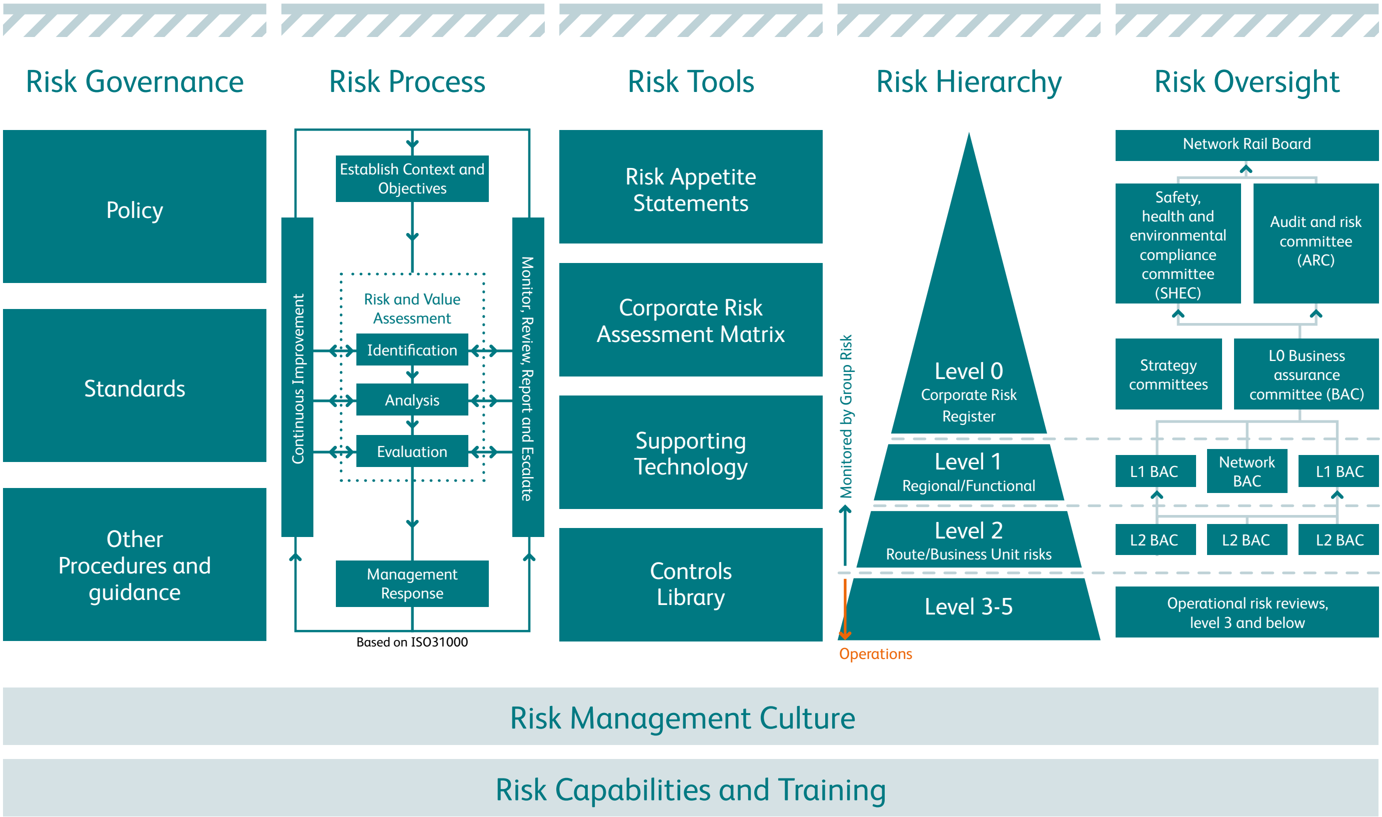
Governance	Shared policies, processes and procedures across the business
Risk	Identifying and managing risks across Network Rail
Assurance	Checking that the right actions are in place and are effective in managing our risks
Improvement	Sharing learning and ensuring effective delivery

It's a way of working that enables us to deliver our goals in a devolved business structure.

How we manage our risks

To manage risk, we use an enterprise risk management framework, developed using the government's management of risk guidance. This helps us identify, assess, and manage our risks.

Diagram 1 - Risk framework



Risk Oversight

Everyone at Network Rail has a role to play in identifying and managing risks, but the Board is ultimately responsible. Diagram 1 shows the different risk levels and who manages them:

- the Board delegates day-to-day monitoring of risks to the audit and risk committee, and for safety risks, the safety, health and environmental compliance committee
- the committees receive quarterly risk updates, reviewed by the executive leadership in advance
- every risk has one owner. Those at the top (Level 0) are owned by an executive member
- the executive leadership also review risks collectively through the relevant national strategy committee
- a risk can be escalated up to the next level if it needs someone more senior to intervene.

Emerging risks

Our existing risks are regularly reviewed. For example, the control rating for energy reduction and decarbonisation risk was improved following an examination of their effectiveness. The Carmont train accident and workforce fatalities in the last year also led us to re-evaluate our risks around train accidents, workforce safety, and weather and climate change, which resulted in risk controls being updated appropriately.

An emerging risk can be something we don't know about yet, or where we don't yet know if and how something will affect us. It can arise from our own actions, such as changing the way we work, or from external factors, as was the case with the Covid-19 pandemic. We use a combination of external information (like the National Risk Register and the World Economic Forum's global risks reports) combined with internal expertise to spot potential new risks which then follow our risk management process. The Board formally holds a session every two years to scan for new risks.

Putting passengers first…

We split risks into three groups based on who the risk would directly affect if it happened. The risk tables on pages 83 to 86 state the category for each principal risk.

Diagram 2 – risk impact categories

Passengers/freight	Passengers, freight and/or the wider rail industry and anyone we work with
Strategy & potentially passengers/ freight	Network Rail's strategic objectives and potentially passengers
Operations	Network Rail's operations only

…across the rail industry

Network Rail can't manage risks on its own - we work with people across the rail industry on risks that could impact passengers or freight. Here are some examples:

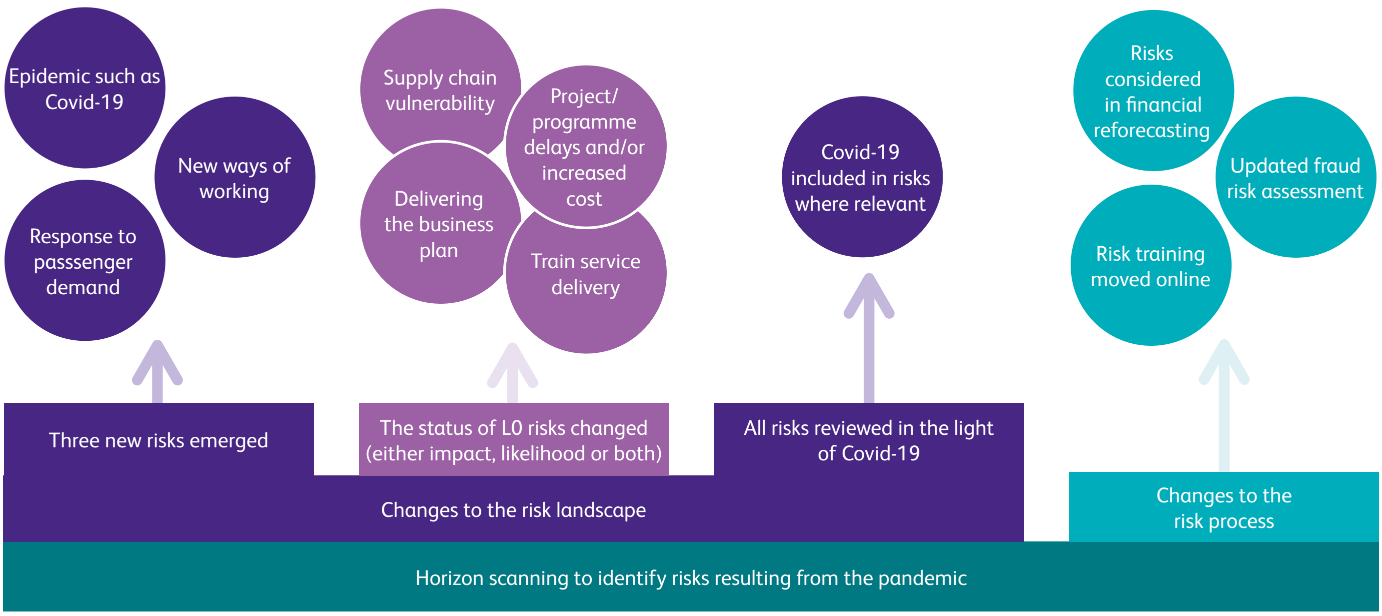
Train timetabling
Network Rail works with a timetabling programme management office (consisting of Network Rail, train operating companies and freight operating companies) to identify risks to timetable changes.

Train service delivery
Network Rail informs the Rail Delivery Group's (the industry's membership body) network performance board of cross-industry performance related risks, to be monitored as part of the performance improvement management system. Performance risks can also be directly escalated to the most appropriate stakeholder, such as the Office of Rail and Road, or Department for Transport.

The Covid-19 pandemic
The Covid-19 national emergency impacted everyone, at work and at home, with unprecedented speed and duration. We have continued to collaborate with the industry in managing the impacts of the pandemic. For example, the Covid-19 forecasting group, with representatives from across the industry, produces passenger demand forecasts and research to understand potential future travel patterns and passenger priorities.

Throughout the year, we assessed the impact of the pandemic on our existing risks, and identified any new risks. Diagram 3 shows the outcomes of this exercise.

Diagram 3 - The impact of Covid-19 on our risks



Climate change risks

Risks and opportunities associated with climate change follow the risk process described in diagram 1 and are reviewed in the sustainable growth national strategy committee to ensure we capture all climate change related risks. This is in line with the recommendations from the task force on climate-related financial disclosures.

Continuous improvement

We constantly look for ways to improve. This year, we focussed on the business assurance committees, widening their scope to cover each element of GRAI. Our aim is to better link each risk with evidence of how the controls are working so it's easier to pinpoint what action needs to be taken to improve it. We have a risk strategy and goals for the coming year so that our risk management approach stays fit-for-purpose and the best it can be.

How do we decide how much risk to take?

To help us decide which risks we should and shouldn't be taking, we use risk appetite statements that describe how much risk the Board is willing to take to achieve its goals. These fall under four categories: safety, health, and environment; political and stakeholder; finance; and train performance.

Safety, health & environment
We will seek to continually reduce safety, health, and environment risks across the system, reducing the likelihood of serious injury or loss of life to public, passengers and workforce, or irreversible environmental damage.

Political and stakeholder
We're willing to accept some negative exposure to support high risk strategies, including national media coverage, political or regulatory scrutiny (i.e. our stakeholders).

Financial
Within Network Rail's core business, we're willing to accept and invest in opportunities with inherent financial risks, where these are understood and proportionate to the expected benefits to passengers and freight users.

Outside of our core business, we're only willing to accept and invest in opportunities with moderate inherent risks, where these are understood, proportionate to the expected benefits and undertaken with necessary external approvals.

We're prepared to accept minimal risk of a breach of our agreed funding limits and will allocate funding to create buffers to mitigate the risk.

Train performance
We're open to new approaches and will work across the industry to build back better following the pandemic.

Innovation will be supported where the risks are understood and proportionate to the expected benefits.

Where risks are poorly understood, we will be cautious about making any decision that could negatively impact on train performance for passengers and freight users.

Principal risks

The Board confirms that it has assessed and monitored Network Rail's principal and emerging risks throughout the year, in accordance with provision 28 of the UK Corporate Governance Code 2018.

A principal risk is defined as a corporate (Level 0) risk that meets one or more of the following criteria:
- cross-company attention is needed to manage the risk
- controls to manage the risk are unsatisfactory or unacceptable
- our reputation would be significantly damaged if it happened
- the risk is highly likely to occur or has an impact greater than £250 million

The risk visuals and accompanying tables below show the risks that meet these criteria, how serious they are and how they changed over the last year. The risk tables are grouped by strategic theme.

Diagram 4 - Threats to achieving our strategic goals (status as at 31 March 2021)

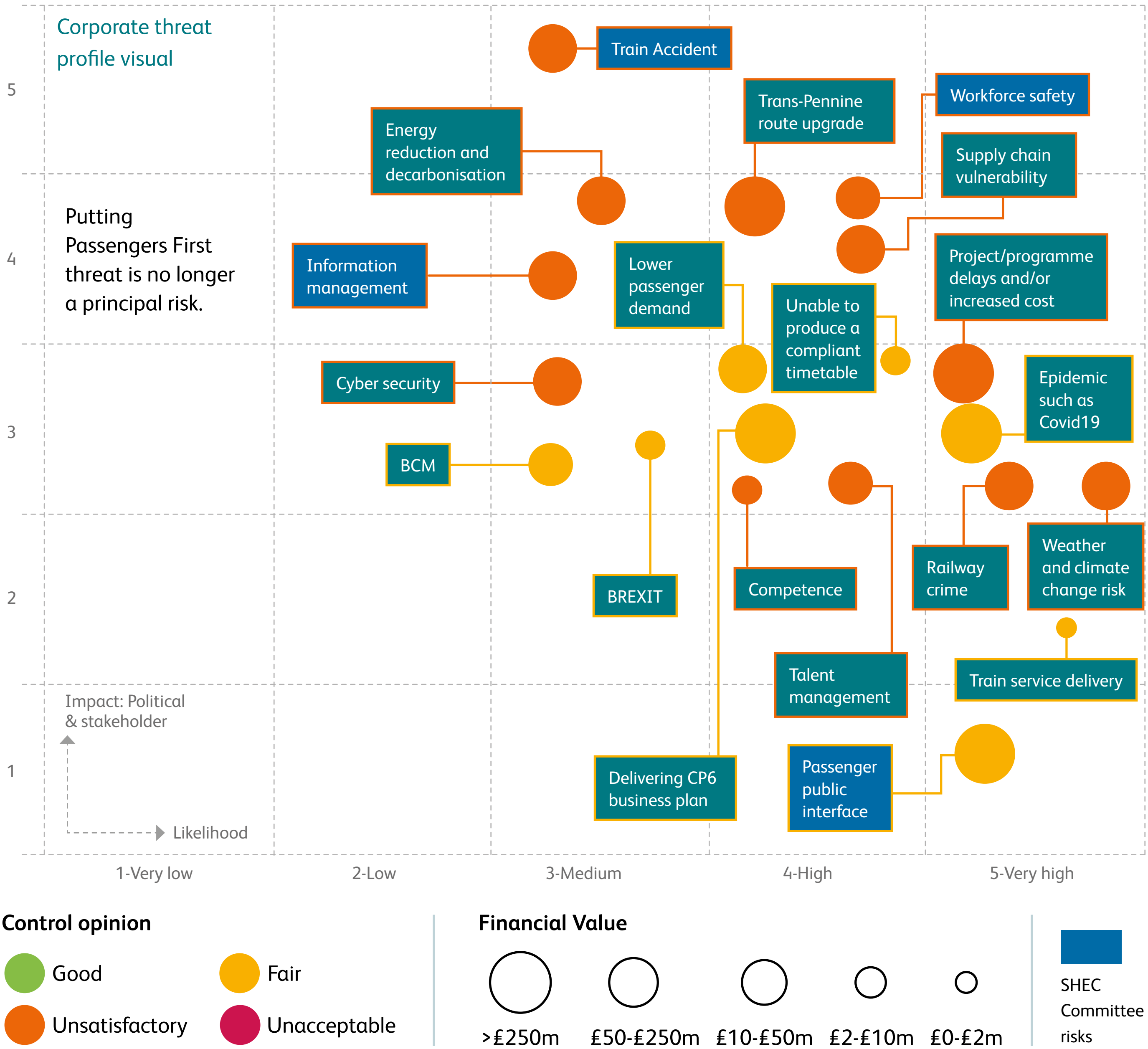
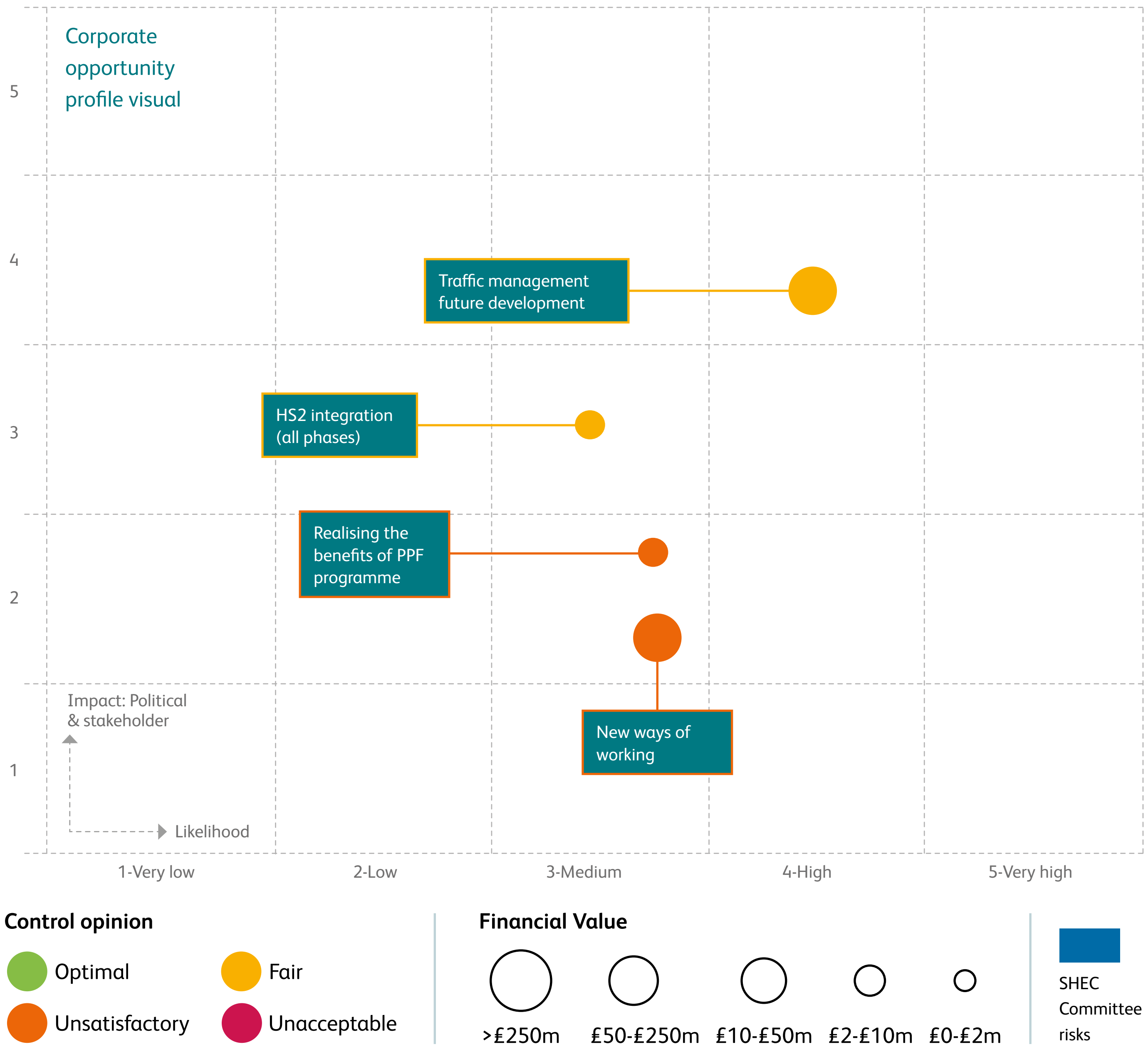


Diagram 5 – Opportunities (status as at 31 March 2021)



Risks by strategic priority

For more information on strategic priorities see page 21.

The arrows denote whether or not the risk has:

- Increased ↑
- Decreased ↓
- Stayed the same ↔

We work towards decreasing threat risks and increasing our opportunity risks.

Strategic theme Safety

Our aim is to reduce risks to the public and passengers, as well as to the people who work for and with us. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↔	**Train accident** Passengers/freight	Network Rail fails to manage activities and processes which may lead to a failure of an asset or operational process which could cause a catastrophic train accident.
↓	**Passenger and public interface** Passengers/freight	We fail to have suitable and sufficient infrastructure, systems, and controls in place to safeguard passengers and the public at the interface with trains and the railway (excluding train accident risk), resulting in a fatal or major injury. The impact of the risk reduced in 2020 due to the success of trespass reduction and suicide prevention campaigns.
↓	**Cyber security** Passengers/freight	Hostile or malicious acts exploiting vulnerabilities in Network Rail's cyber systems leading to loss, compromise or disruption impacting the operational railway, business services and supporting processes. There was a reduction in impact based on changes in public sentiment towards cyber-attacks. However, the move to homeworking as a result of Covid-19 increased our financial exposure due to the increased reliance on IT support and greater financial impact if it were to fail.
↔	**Epidemic such as Covid-19** Strategy	An increase in workforce absence, operational delays, fatalities, reduced business continuity and other impacts to the rail industry as a result of an epidemic or a pandemic outbreak such as Covid-19 (coronavirus).
↔	**Workforce safety** Strategy	We fail to safeguard our workforce resulting in injury, single and/or multiple fatalities to Network Rail staff (employees and contractors).
↔	**Information management** Strategy	We fail to effectively manage our data, information and knowledge resulting in poor decision making and waste of resources.

Strategic theme

Customers and communities

Network Rail's aim is to be easy to work with and to be a good neighbour. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↑	**Realising the benefits of the Putting Passengers First programme (opportunity)** Strategy	Transform how Network Rail operates to create more localised decision making that enables better passenger and freight performance and a culture of service excellence leading to better service for passengers, freight, customers, and stakeholders. The likelihood of the opportunity improved in 2020 due to the implementation of our devolved organisation structure and progress with cultural change initiatives.

Strategic theme

Train service delivery

Our aim is to deliver a railway that people can rely on, with trains that turn up and arrive at their destination on time. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↓	**Train service delivery** Passengers/freight	Not achieving train or freight operating company performance targets as agreed with stakeholders, resulting in loss of reputation and financial penalties. There was a reduction in reputational impact and financial exposure due to an improvement in train performance associated with revised service patterns. The control rating improved from unsatisfactory to fair.
↓	**Unable to produce a robust timetable** Passengers/freight	Network Rail is unable to produce a robust timetable that is both high quality and high performance. This may result in a financial and reputational impact as well as poor passenger and freight customer experience. There was a reduction in reputational impact and likelihood as industry processes have been modified through the year to create an agile approach to updating timetables in response to lockdown restrictions and changing passenger demand.
↓	**Business continuity management (BCM)** Strategy	Severe prolonged business interruption caused by poor business continuity planning and exercising, resulting in a failure to reinstate the operational railway, loss of customer confidence and potential breach of licence conditions. There was a reduction in financial exposure in 2021 due to the reduced volume of railway traffic which has led to a reduction in exposure to delay compensation.
↑	**Supply chain vulnerability** Strategy	A gap in critical service provision due to loss (for either financial, safety, ethical, reputational, or political reasons) of strategic or critical suppliers to Network Rail and a lack of preparedness to fill the service gap leading to reputational damage and financial loss. The likelihood of this risk increased in July 2020 due to the possibility of critical suppliers failing because of Covid-19. Additional controls have been put in place to mitigate the risk, but the higher score reflects ongoing economic uncertainty.

↑	**High Speed 2 integration (HS2) (opportunity)** Passengers/freight	Effectively integrate all phases of High Speed 2 with the existing rail network to maximise the nationwide social and economic benefits, and opportunities presented by HS2 to railway users and stakeholders. The likelihood and impact of the opportunity improved in 2020 due in part to the completion of scoping the outputs required to integrate HS2 into the existing network and sharing of baseline plans.
↔	**Traffic management future development (opportunity)** Passengers/freight	The traffic management system increases the capability of our signalling systems and operators allowing them to identify and address train conflicts before they impact passengers or freight services. There is an opportunity for the remaining routes to deploy the modernised traffic management system to improve performance.
NEW	**Delivery of Trans Pennine route upgrade** Strategy	Due to scope uncertainty, protracted decision-making and untimely release of appropriate funding there is a risk that the TransPennine Route Upgrade programme as a whole (not including the individual, contracted projects we are committed to) may not deliver the stakeholder expectations with regards to the programme's benefits resulting in reputational damage for Network Rail and the industry.
NEW	**Railway crime** Passengers/freight	Criminal activity to the operational railway and supporting assets which could result in loss of life, damage to infrastructure, organisational and reputational damage, and financial loss. The perceived threat from railway crime may cause a loss of public confidence and reduction in customer numbers.

Strategic theme

People

Network Rail recognises the importance of great people and great teams. Our aim is to empower all our people to do their best work, delivering for our passengers, supported by the best leadership they have ever had. This vision underpins ongoing transformation and drives forward initiatives on diversity and inclusion and employee engagement. Our people strategy is key to ensuring Network Rail remains one of Britain's best employers. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↔	**Talent management and succession planning** Strategy	Network Rail fails to attract, retain, and develop the full potential of our pipeline of talent for business-critical roles; resulting in sub-optimal leadership capability, worse business outcomes and a compromise of our ability to deliver for our passengers.
↔	**Competence** Passengers/freight	Network Rail fails to manage the competence of all its employees, regardless of where they are working, and others working on Network Rail's managed infrastructure leading to safety incidents, adverse health impacts, poor train performance or significant uncontrolled/unplanned costs.
NEW	**New ways of working (opportunity)** Passengers/freight	There is an opportunity to permanently change our working practices (for tasks that do not need to be done at a specific time or location), leading to improved employee engagement and productivity, business performance, reduced costs and a better environmental footprint.

Strategic theme
Efficiency

As a public body, we have a responsibility to spend our money wisely and more efficiently to deliver the best possible value. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↔	**Project/programme delays and or increased cost** Passengers/freight	Schedule slippage and/or cost growth could occur on individual or multiple infrastructure projects and programmes due to un-envisaged internal/ external factors resulting in delayed benefits and stakeholder dissatisfaction.
↓	**Delivering the CP6 business plan** Strategy	Network Rail fails to identify and intervene to manage risks to the delivery of our CP6 targets and commitments. The reduction in risk reflects our greater understanding of the impact of Covid-19 to our business and confidence in delivery.

Strategic theme
Sustainable growth

Network Rail's vision is to be a responsible and environmentally sustainable company. We want to be a strategic partner with other rail industry and government stakeholders to ensure the railway develops in a way that is sustainable, efficient, responsive and optimises whole-industry costs and revenue. The principal risks that could positively or negatively impact the achievement of this strategic risk theme are:

↓	**Energy reduction and decarbonisation** Passengers/freight	Failure to decarbonise Network Rail's activities and lead the decarbonisation of the rail industry, leading to negative environmental impact, non-compliance and reputational damage for both Network Rail and the wider industry. The control rating improved in February 2021 due to the action plans developed and the confidence that the effectiveness of controls will improve over time.
↔	**Weather and climate change** Passengers/freight	The railway fails to deliver normal levels of performance during adverse and extreme weather events, today and in the future, as a result of climate change.
NEW	**Response to passenger demand** Passengers/freight	Network Rail and the rail industry responds poorly to changes in passenger demand and passenger needs as Britain recovers from the Covid-19 pandemic, resulting in continued low passenger numbers and financial impacts for Network Rail, as well as the passenger experience.
↓	**Brexit** Passengers/freight	The risk that Network Rail's ability to operate and maintain the rail network is compromised by Brexit-related disruption in southern England and/or by having insufficient supply chain resilience or failing to prepare for medium term impacts of changes to the UK's trading relationship with Europe. There was a reduction in financial impact of this risk in February 2021 due to changes in the financial and industry reporting structures.

VIABILITY STATEMENT

The directors have assessed the viability of Network Rail to maintain Great Britain's rail infrastructure over a three-year period, taking account of Network Rail's current position and the potential impact of defined scenarios on its principal risks and financial viability. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2024. This longer-term assessment process supports the Board's statements on both viability, as set out below, and going concern (see page 136).

Network Rail is funded in five-year blocks called Control Periods (CP). The current Control Period, CP6, runs from 2019-24, and CP7 from 2024-29. The Office of Rail and Road (ORR) determines charges and outputs before the start of each Control Period. In doing so, it has statutory obligations to produce a settlement that is equitable to the licence holder, Network Rail. This allows Network Rail a high degree of certainty in relation to funding for its operations and investment activities.

The regulatory process towards setting charges and outputs allows stakeholders to define their required outputs from the network, and governments in Westminster and Holyrood to set the funding they have available. These are built into Network Rail's strategic business plan. Once the ORR has determined outputs and charges, Network Rail produces a delivery plan. The plan is refreshed by bottom up forecasts on a quarterly basis to manage outputs within the resources available.

Network Rail will not undertake any further borrowing during the period to 2024. Instead its activities are largely funded by grants from the Department for Transport (DfT) and revenue from customers. Network Rail has a £31,859m loan facility with the DfT which it intends to draw on specifically to refinance its existing debt with DfT of £30,439m, and legacy commercial borrowing of £1,420m in the period to March 2024. This facility remains within its parameters.

Network Rail has eight separate grant agreements in place with DfT and Transport Scotland (TS) to fund activities in the period 2019-24, these are:

- with DfT: Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant.
- With TS: Network Grant and Enhancements Grant

Network Rail is also investigating methods of attracting third party capital to finance improvements to the railway network.

In addition to the loan facility and deeds of grant described above, throughout the pandemic Network Rail's direct customers, train and freight operating companies continue to be supported by Government. For example, Emergency Recovery Measures Agreements with train operating companies, were put in place for 18 months from September 2020.

On 20 May 2021 the Government announced plans to reform the rail industry. This proposes that, commencing in late 2023, a new public body, Great British Railways (GBR), will integrate the railways, owning the infrastructure, collecting fare revenue, running and planning the network, and setting most fares and timetables. It's planned that Network Rail will be absorbed into GBR to bring about single, unified, and accountable leadership for the national network. The Williams-Shapps Plan for Rail notes that 'the government will at least maintain the current infrastructure settlement, which runs until 2024, and will provide subsequent five-year infrastructure funding deals from 2024 onwards'.

Network Rail has business plans and financial models that are used to project cash flows and monitor financial risks and liquidity positions, forecast future 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 availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In evaluating the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems are considered.

Modelling has assessed the impact of Covid-19 responses on Network Rail's financial viability and shows that these may be mitigated by the financial risk buffer and the ability to safely defer works, as required.

In addition, as Network Rail is a central government body and a member of the DfT Group for consolidation purposes, its creditors can take comfort from Her Majesty's Government security, and the statutory obligations on the Secretary of State for Transport, with regard to settling liabilities.

We have set out the details of the principal risks facing Network Rail (pages 81 to 82) described in terms of our ability to meet our strategic objectives. We identify our risks through a robust assessment that includes a continuous cycle of bottom up reporting and review. In making this statement the directors have considered these principal risks and Network Rail's ability to withstand severe but plausible scenarios based on them. This included consideration of the political environment, industrial relations, and the safety of the rail network. The scenarios were considered in terms of the impact on the financial resources of Network Rail and the impact on delivery of future improvement works. The assessment considered Network Rail's current financial position and any headroom in its current forecasts. It also considered other sources of funding or actions such as deferral of improvement works.

Several mitigating actions were identified including the adequacy of the financial risk buffer, coupled with the ability to safely defer works, the plans to improve performance, and the group's insurance arrangements. The approach was to assess three severe but plausible scenarios covering seven of the principal risks; note that these scenarios augmented the scenario assessments made in previous years.

Scenario 1

Network Rail fails to deliver against the agreed settlement for CP6.

Risks

Delivering the CP6 business plan; loss of agreed funding; inadequate funding.

Scenario 2

Network Rail suffers a significant tunnel failure event causing a train accident (derailment) which results in injury or fatality to members of the public and the complete blockage of a tunnel bore at a critical or strategic location.

Risks

Mining; train accident; tunnels asset management.

Scenario 3

Complete loss of a significant Network Rail site or critical national infrastructure site because of a major damage event such as fire.

Risks

Business continuity management; railway crime; terrorism.

Based on this robust assessment of the principal risks facing the group, and on the assumption that they are managed or mitigated in the ways disclosed, the Board's review of the business plan and other matters considered and reviewed during the year, and the results of the sensitivity analysis undertaken and described above, the Board has a reasonable expectation that Network Rail will be able to continue in operation and meet its liabilities as they fall due over the period to March 2024.

Directors' approval statement - The Strategic Report has been signed on behalf of the board of the company.

Sir Peter Hendy CBE,
chair
15 July 2021

CORPORATE GOVERNANCE

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 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 Brighouse
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 pubic 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 re organised 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 programmee se 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

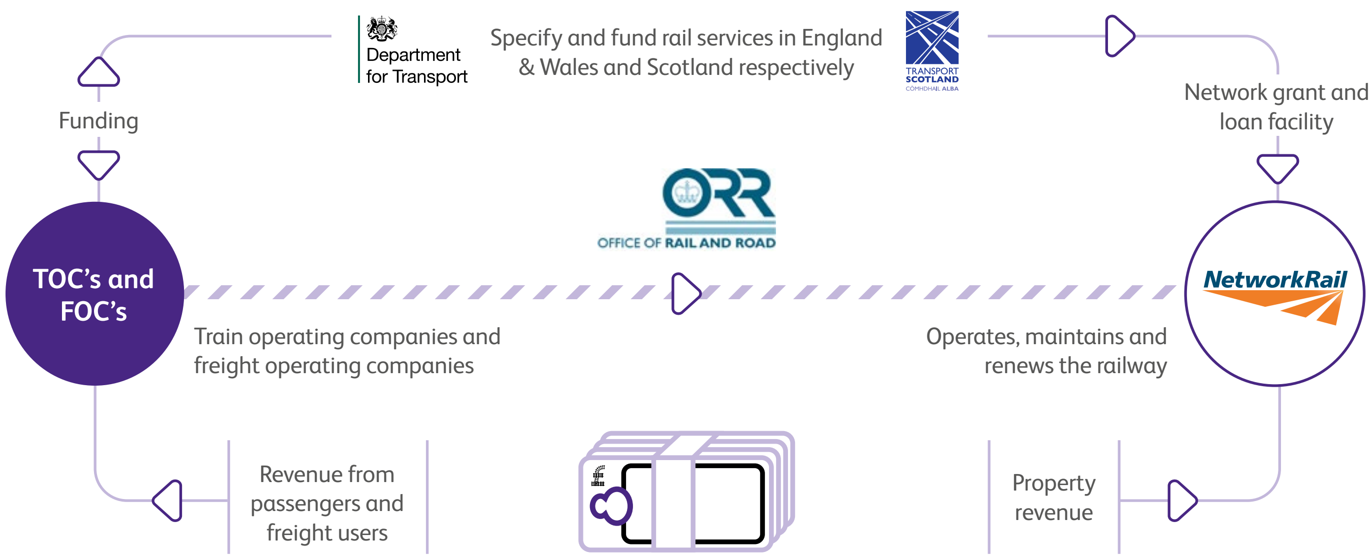
Network Rail owns, operates and develops Britain's railway infrastructure. We operate within regulatory and control frameworks and are an arm's length government body. Our financial management and corporate governance ways of working with the DfT are described in the Framework Agreement. A copy of the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

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**.

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: • appointing both Mike Putnam and David Noyes for a second, three-year term • appointing Ismail Amla, Mark Bayley CBE, Stephen Duckworth and Fiona Ross as non-executive directors with effect from 11 May 2020. • the appointment of new non-executive directors.
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**.

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**

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 Brighouse
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.

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.

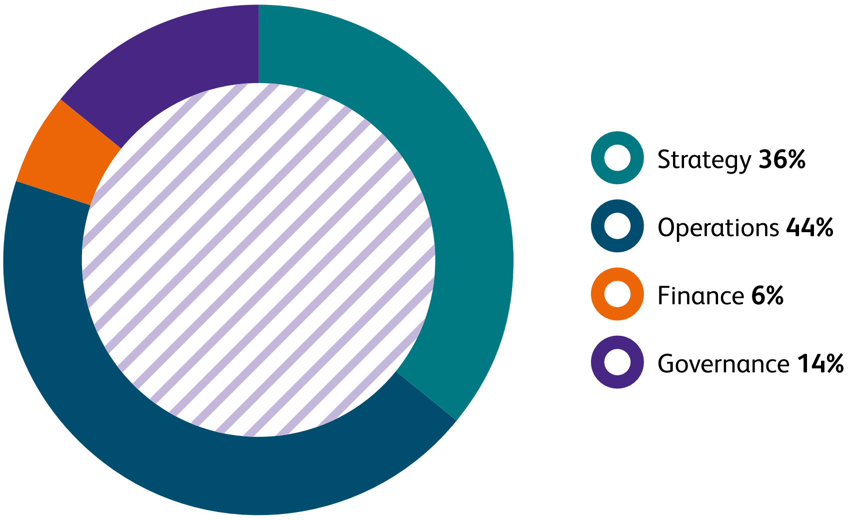
During 2020/21, there were a number of changes to membership of the Board.

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

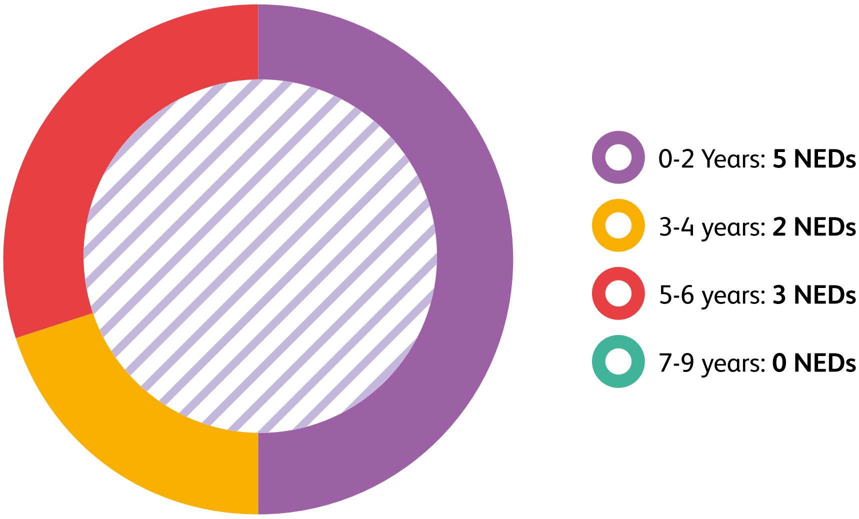
The Board is aware that diversity extends beyond gender, and includes amongst other things age, social, ethnic, educational and professional backgrounds. Further details about Network Rail's organisational diversity and inclusion policies and how these have been implemented in the year can be found in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

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' 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.

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

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

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 fatality 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 Brighouse	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[1]	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[1]	May 2020	4/4
Rob Brighouse	Jan 2016	4/4
Sharon Flood[2]	Sept 2014	1/1
Michael Harrison[3]	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	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. 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. After this review, the committee confirmed the valuation derived from the estimates, key judgments and valuation methodology.

Capital accruals	The estimate of cost of work done is a key judgement in Network Rail's accounts. 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. 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. 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.
Risk of management override of internal controls	The independent auditor has focussed attention on this area and provided satisfactory reporting to the committe.
Deferred tax 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.	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.
Valuation of investment properties	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.
Pension assumptions	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. 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. 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.

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[1]	May 2020	3/3
Silla Maizey	November 2016	3/3
Michael Harrison[2]	September 2020	2/2
Sharon Flood[3]	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[1]	May 2020	3/5
Sir Peter Hendy	October 2015	4/5
Fiona Ross[2]	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**

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

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**.

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[1]		Pension[2]		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
Jeremy Westlake	373[3]	371	12	12	33	34	0[5]	0	417	417
Andrew Haines OBE	554[4]	593	3	3	0	0	0[5]	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:

A. Calculate total remuneration for all employees and take the percentiles to calculate the pay ratio against the chief executive single figure total remuneration.
B. 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[2]	**Option B**	20.9:1	16.1:1	13.3:1
2019/20[3]	**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[4]		
	Normal retirement age[2]	Accrued pension at 31 March 2021 £000	Increase in accrued pension (net of inflation) during 2020/21)	Tansfer value of accrued pension at 31 March 2021 £000[3]	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
Andrew Haines OBE[1]	–	–	–	–	–	–	–
Jeremy Westlake	–	–	–	–	–	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
Rob Brighouse[1]	59	–	50	–
Sharon Flood[2]	28	–	71	–
Sir Peter Hendy CBE[3]	296	–	335	0
Silla Maizey	40	–	40	–
David Noyes[4]	50	–	42	–
Mike Putnam[5]	50	–	44	–
Michael Harrison[6]	0	–	–	–
Mark Bayley	46	–	–	–
Fiona Ross[7]	36	–	–	–

1. Rob Brighouse'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.

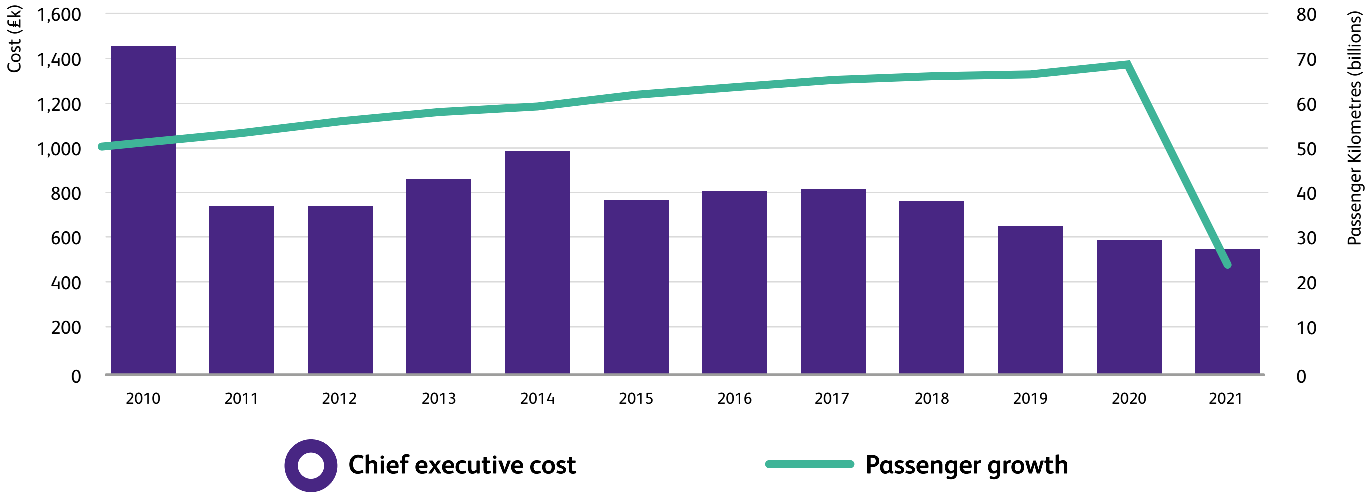
	Chief executive	All employees
Salary[1]	-7.5 %[2]	0 %[3]
Benefits	0 %	0 %
Performance related pay[4]	0 %	0 %

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 (%)
Total employee remuneration	£2,802m	£2,715m	3.2
Total expenditure	£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**. 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	• Review of the Executive directors' and executive leadership team's annual pay award 2020 • Options for performance related pay for 2019/20 • Review of senior leavers
September 2020	• Roles within Network Rail over the HM threshold • Appointment process to replace retiring region managing director/senior executive • Appointment process for new non executive director • Proposed Board diversity and inclusion policy, specifically gender and ethnicity targets • Approval of Board committee memberships • Agreement to undertake an independent Board effectiveness evaluation • Approval of approach for performance related pay for 2019/20
October 2020	• Reform of the performance rated pay scheme for 2020/2021 • Investment in active talent management • Effective workforce engagement • Roles within Network Rail over the pay threshold
February 2021	• Options for performance related pay schemes for 2020/2021 and 2021/22 • Review of Network Rail's senior executive reward strategy • Update on non executive directors' re appointment and recruitment

Committee members

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

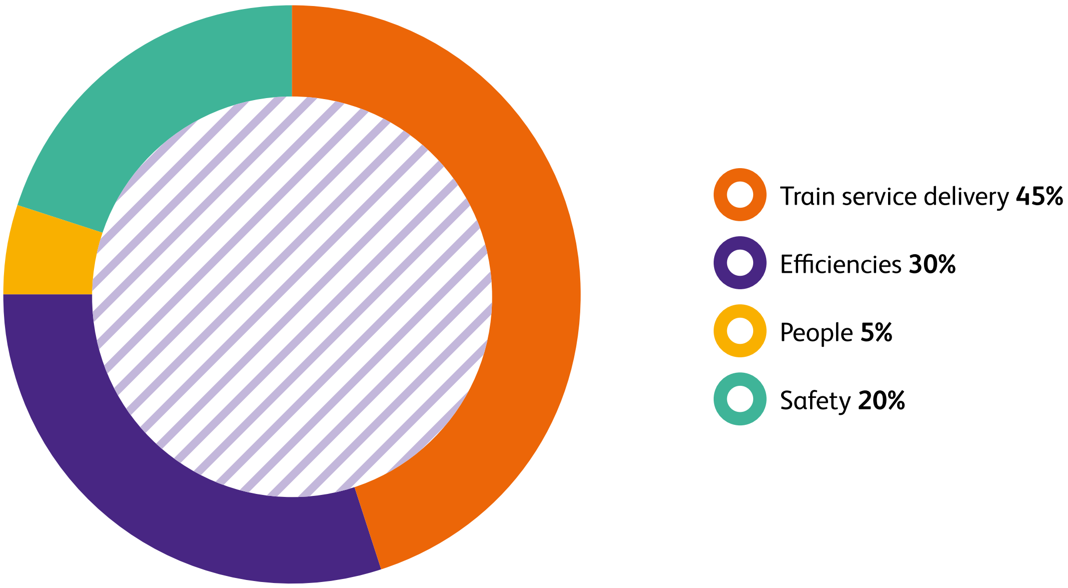
In 2018, the nomination and remuneration committees were combined to form one committee. The committee continues to cover policy, governance and decision-making in relation to all senior employees with salaries above the pay threshold.

The full terms of reference of the committee can be found on the website: **www.networkrail.co.uk**.

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	**On Time** The percentage of Recorded Station Stops called at on time (early or <1min late)	12.5 %	65.1 %
	Passenger Satisfaction The percentage of passengers surveyed who were satisfied with their overall journey.	20.0 %	83.5 %
	Freight Delivery Metric (FDM) 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 %
	Composite Reliability Index (CRI) 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	**Financial Performance Measure (FPM)** 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
	Enhancement Milestones 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	**Employee Engagement** An index representing the proportion of employees surveyed who responded favourably to key questions on engagement.	5.0 %	61.0 %
Safety	**Workforce Fatalities and Weighted Injuries (FWI)** An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10.0 %	0.059
	Passenger Safety (TARR) 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:

National dashboard (100%) } **3/4 Dashboard out-turn** + **1/4 Individual performance** = **Individual performance-related pay**

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

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

to the sole members of Network Rail Infrastructure Limited

Opinion on financial statements

I have audited the financial statements of Network Rail Limited for the year ended 31 March 2021 which comprise the group income statement; group statement of comprehensive income; group statement of changes in equity; group and parent company balance sheets; group and parent company statement of cash flows; and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as applied in accordance with the provisions of the Companies Act 2006.

I have also audited the information in the Directors' Remuneration Report that is described in that report as having been audited.

In my opinion the financial statements:
- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Network Rail Limited in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of Authorities	
Authorities for a company	Companies Act 2006
Operating requirements	Network Licence
HM Treasury and related authorities	Managing Public Money

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Network Rail Limited's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included evaluation of management's assessment of future cash requirements; future income streams; potential legislative changes; and the impact of the government's publication of the 'Williams-Shapps Plan for Rail' White Paper.

The Williams-Shapps Plan for Rail was published on 20 May 2021 and makes recommendations for reform of the rail industry. These recommendations include establishing a new public sector body (Great British Railways) into which Network Rail will be absorbed. Legislation will be required to bring about these changes and Great British Railways is not expected to be created until 2023. I have reviewed the recommendations and made enquiries with Network Rail Limited; the Department for Transport; and the Office of Rail and Road. Decisions on how these proposals will be implemented and precisely how this will impact on Network Rail Limited are still to be taken.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Network Rail Limited's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed on the risk of fraud through management override of control, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 112 and 113.

I did not include the 'first time adoption of IFRS 16 – leases' as a significant risk for my audit this year as this occurred in 2019-20 and I no longer consider this to be a key audit matter.

Property, plant and equipment – valuation of the rail network

Description of risk

The group accounts for the rail network as a single asset carried in the Balance Sheet at its fair value. In the absence of an active market, fair value is estimated using the discounted cash flows associated with the asset.

As explained in Note 12 to the financial statements, the group continues to use the Regulated Asset Base ('RAB') as the starting point for its discounted cash flow valuation of the railway network. This is on the basis that a private owner of the railway network asset would have its revenue requirement determined using the building block model of regulation.

The value of the RAB at 31 March 2021 (after the effects of inflation, qualifying capital expenditure, and amortisation) is £72.7 billion. Management continues to acknowledge that, in pricing the asset, an investor would make an assessment of the deliverability of the current regulatory determination, and a discount of £475 million has been applied to the RAB value in determining the fair value of the rail network asset at the reporting date (31 March 2020: discount of £475 million). This is termed the Performance Adjustment and, as in previous years, has been calculated based on management's own performance forecasts for the remainder of the current Control Period (CP6). As per management's disclosures in Note 2 under 'Critical accounting judgements and sources of uncertainty' and in Note 12, inherent estimation uncertainty in this area is considerable in light of the forecasting element. This year, management have specifically considered the ongoing impact of COVID-19 and notes a specific assumption about the return of property income (principally from managed stations) to baseline levels by the end of the current Control Period in 2023-24.

A further discount of £217 million (31 March 2020: discount of £251 million) has been applied to reduce the reported fair value of the rail network asset to £72.0 billion (31 March 2020: £71.8 billion). This adjustment is equal to the value of assets separately recognised as Investment Property and relevant Assets Held for Sale balances, and is applied on the basis that under the traditional regulatory model, the revenue requirement of the regulated entity is calculated net of the income the entity expects to generate from the property assets. Further information is included in note 12.

In evaluating the value of the RAB, I focused my audit effort on the continuing validity of the underlying valuation assumptions, and on the estimation of the Performance Adjustment.

How the scope of my audit responded to the risk

Key observations

Evaluating underlying valuation assumptions

Having read the regulator's determination for CP6, I considered whether a market participant could reasonably expect their revenue requirement to be determined using the traditional regulatory funding model. I assessed as reasonable management's judgement that a market participant would value the railway network asset by reference to the RAB. I confirmed with the regulator that, in their view, the sale of all (or part) of the railway network could take place without a regulatory re-opener (i.e. a new regulatory determination with revised outputs and a revised assessment of efficient costs). Accordingly, I assessed as reasonable management's judgement that in valuing the railway network asset a market participant would make an adjustment to deliverability of the current regulatory determination (see below). I also reviewed the reasonableness of the other underpinning assumptions noted in Note 12.

This year I also took into account the publication of the recommendations in the Williams-Shapps Plan for Rail White Paper which includes proposals for a new government entity to be established which will own the rail infrastructure. Having reviewed management's position, I evaluated as reasonable their view that whilst the White Paper indicates that government intends to maintain ownership of the railway network in the future, the use of RAB as the basis for the valuation included in the accounts remains appropriate. As part of my evaluation I took into account, amongst other things, the recent use of the RAB as a basis for pricing the transfer of railway assets between Network Rail and the Welsh government.

Addressing measurement uncertainty – the performance adjustment

The company has measured the performance adjustment as the difference between its revised CP6 Delivery Plan, updated at 31 March 2021 to reflect its latest forecast, and the CP6 regulatory baseline.

I evaluated the appropriateness of the method of measurement, and the inherent assumptions, by assessing the ongoing validity of the theoretical assumptions underpinning this RAB-based valuation and assessing management's performance forecast against relevant metrics. I am satisfied with the ongoing validity of the theoretical assumptions following a detailed review on the impact of CP6. I have also assessed management's measurement of the performance adjustment relevant to a third party as reasonable. I obtained this assurance by evaluating, at a high-level, the company's performance forecasts for CP6 against its historic and emerging performance trends, as well as publicly available metrics (e.g. on train performance) and my wider understanding of the business.

I also considered management's assumptions in respect of the impact of COVID-19, for example in respect of the future prospects of commercial income, in determining whether inputs to the estimate were within a reasonable range and reviewed the adequacy of management's disclosures on significant judgments.

Key observations

In the course of completing this work, I did not identify any material misstatements in the valuation of the railway network recognised, and disclosed, in the financial statements.

Defined Benefit Pensions Scheme – valuation of deficit

Description of risk

The group is party to two defined benefit pension schemes. Based on risk and value, I focused my work most heavily on the defined benefit Network Rail section of the Railway Pensions Scheme ('RPS'). I have focussed greater attention on the valuation of the scheme assets again this year due to lagged valuation reports in respect of private equity investments to address any risk arising from market volatility. The balances related to this section reflect, respectively, 96 % and 93 % of the group's total assets and liabilities in respect of defined benefit pension schemes, with the Career Average Retained Earnings ('CARE') scheme making up the remainder. Both schemes are on a 60:40 shared cost basis between the group and scheme members.

There is significant complexity, and inherent estimation uncertainty, in the valuation of the net position of the RPS scheme in respect of both the assets and liabilities contributing to the net position which is detailed in Note 26 to the financial statements. Scheme movements are presented on an aggregated basis in this note for the RPS and CARE schemes, inclusive of members' share, as are the values below with the net position reported at the group 60 % share.

Scheme liabilities
As with all defined benefit pension schemes, an actuarial estimate of the liability reflecting amounts to be paid out to members of the RPS scheme in the future (£12,461 million as at 31 March 2021 including members' share) involves significant estimation in respect of key financial assumptions and other assumptions including demographic assumptions.

Scheme assets
In respect of RPS scheme assets, an accurate and timely valuation is needed of the various asset classes held in the pension fund administered by RPMI on Network Rail's behalf (£8,198 million as at 31 March 2021 including members' share).

The standard practice of the scheme assets manager is to value investments using the most recent valuation, and if this is for a date earlier than the Balance Sheet date, to adjust for subsequent cash flows where necessary. This can lead to differences due to use of non-coterminous valuations and following the COVID-19 driven volatility of the prior year, I worked with Network Rail and the asset manager to determine enhancements which would take better account of market conditions at the year end.

The valuation of the property held by the scheme is valued by RPMI's professional valuers as at the Balance sheet date and the material uncertainty that was recognised last year has been removed following subsequent movement in the property market.

I assessed this key audit matter to be a significant risk for my audit.

How the scope of my audit responded to the risk

Key observations
Scheme liabilities
I contacted Network Rail's actuaries to obtain an up to date understanding of the methodology used to calculate the main financial assumptions, and to understand the methodology and level of uncertainty involved in the roll-forward calculation. I performed my initial assessment of the independence and expertise of these actuaries, and engaged an actuarially qualified auditor's expert to examine the assumptions, methodology and source data used to value the obligations, including both financial assumptions and the roll-forward procedures used to update membership data. I note that financial assumptions were overall within reasonable ranges, and that changes in financial assumptions – particularly on discount rate and price inflation – have been the primary cause of the increase in year for pension obligations.

Scheme assets
My work on scheme assets is informed by the results of the statutory audit of the RPS financial statements, which is independently performed by another firm based on a year end of 31 December 2020, but also includes a set of direct substantive procedures to validate the asset valuations at the year end. These included sample testing over the asset valuations as at 31 March 2021 on distinctive asset classes within the Funds in which Network Rail is invested, as follows:
- for quoted and actively traded assets, I independently agreed valuations to observable market prices;
- for pooled investment assets, I agreed valuations to the investment manager valuation report and reviewed relevant observable active market data to evaluate its reliability, as well as considering potential indicators of impairment; and
- for directly held property investments, I have reviewed the independent third-party property valuation performed for the scheme asset manager and reviewed the valuation movements against those in similar property sectors to confirm that the movements are in line with the wider market.

Additionally, for private equity and non-exchange-traded pooled investment vehicles, I completed a hindsight review of asset valuations received post year-end to verify the subsequent valuation movements recorded by the asset manager in relation to valuations as at the reporting date. I performed sample testing to validate the valuation included at the balance sheet date and where applicable, any subsequent valuations received relating to the balance sheet reporting date. I also undertook procedures to understand the nature of the investment as well as consideration for indicators of impairment.

Key observations

In the course of completing this work, I did not identify any material misstatements in the valuation of defined benefit obligations in the financial statements. I identified a £166 million understatement in the valuation of the pension scheme assets recognised in the financial statements based on the Network Rail's cost share. This was adjusted to reflect the valuations received post year-end relating to the investment value as at the balance sheet reporting date. This has been adjusted by Network Rail.

Accruals for capital work - valuation

Description of risk

The group's accounting for its investment in the railway network, particularly for capital investment including renewals and enhancements, involves a level of estimation at the year-end about the amount of work delivered. This may differ from plan, for example as a result of unexpected under- or over-delivery by Network Rail's contractors. Both controllable factors (e.g. contractor project management, the potential for delivery optimism bias) and uncontrollable factors (e.g. ground conditions and weather) contribute to inherent estimation uncertainty which the group addresses through a post-Balance Sheet review exercise which includes the Regions and other delivery areas. These factors are part of the estimation uncertainty outlined by the group under the comments concerning cost of work done in the 'Critical accounting judgements and key sources of uncertainty' section of Note 2.

Network Rail's capital accruals comprise the vast majority of the £934 million 'other accruals' in Note 18 of the financial statements as at 31 March 2020 (31 March 2019: £910 million). The estimate is built from the aggregation of estimates made by individual project teams, overseen by financial controllers and directors within the routes and delivery areas.

In the prior year I assessed this key audit matter to be a significant risk for my audit as a result of errors identified through the 2018-19 audit. In 2019-20, however, the actions taken by management substantially reduced this risk and our testing found only low value errors. For the 2020-21 audit I have not assessed this to be a significant risk, however, I consider that this remains a key audit matter due to the level of audit resource that is required to complete the testing.

How the scope of my audit responded to the risk

I substantively tested capital accruals after management had applied adjustments to revise accruals estimates based on actual delivery. In order to address any latent risk of delivery optimism, I ensured my sample selection included sufficient testing to provide a firmly grounded statistical extrapolation of the potential effect on the accounts. I also furthered my coverage and statistical confidence by testing the majority of accruals at project, rather than task line level, and by taking a stratified approach based on value-based risk characteristics.

Key observations

I did not identify any material misstatements in the valuation of the capital accruals recognised, and disclosed, in the financial statements. Most projects were able to clearly and accurately substantiate their assumptions with regards to stages of progress, taking into account information available after the year-end to revise their accrual estimate where necessary. Issues found were mostly clerical in nature.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined materiality thresholds for the Group's financial statements as a whole as follows.

	Overall threshold	Additional threshold
Value	£602m	£107m
Basis for determining materiality	0.8 % of the carrying value of Property, Plant and Equipment of £72billion (2019-20: 0.7 % of £71.8 billion).	Approximately 1 % of total expenditure (gross expenditure adjusted for depreciation and capital additions)
Rationale for the benchmark applied	We have based materiality on the value of the railway network asset carried in the Balance Sheet as the maintenance and operation of that asset under the network licence issued by the Office of Rail and Road is the main function of the Network Rail Group and likely to be a key focus of users of the financial statements.	We assess that due to the funding of Network Rail's in-year expenditure by operating companies and the Westminster and Scottish governments, an additional threshold applying to all work not purely connected with the valuation of the network asset is appropriate, reflecting the decision-making sensitivity of users of the account and key stakeholders on financial statement elements related to the use of that funding.

Performance Materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75 % of Group materiality for the 2020-21 audit (2019-20: 75 %). In determining performance materiality, we have considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error Reporting Threshold

I agreed with the Audit & Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £1 million, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

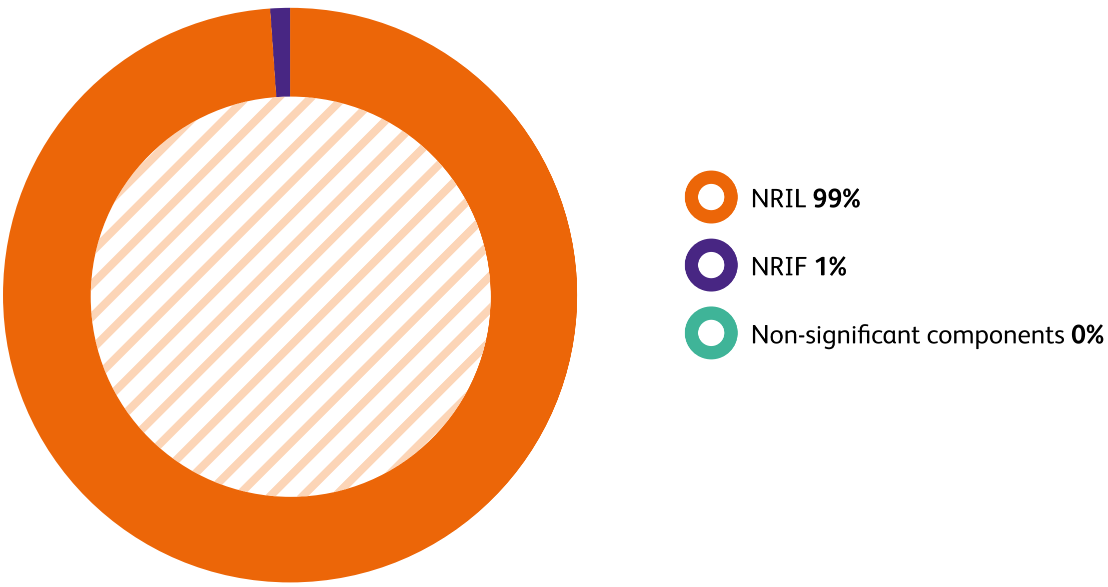
Total unadjusted audit differences reported to the Audit & Risk Committee have decreased net assets by £10.8 million.

Audit scope

The scope of my Group audit was determined by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Network Rail Limited does not hold any assets or liabilities. All balances are consolidated into the group accounts from other components. Over 98 % of these balances are held by either Network Rail Infrastructure Limited or Network Rail Infrastructure Finance Plc. I complete full audits of those accounts to confirm that the amounts included in the Network Rail Limited Group financial statements are reported correctly. I have assessed the other components of the group as being non-significant. For those entities I required component auditors to provide a return confirming receipt of group instructions, adherence to ethical standards and, on an exception basis, to report any errors or issues that might be significant to the group position. I have not received any reports of significant errors or issues arising on component entity audits.

This work covered substantially all of the group's assets and net profit, and together with the procedures performed at group level, gave me the evidence I needed for my opinion on the group financial statements as a whole.

Gross assets of individual components of the Network Rail Limited group (as at 31 March 2021)



Other Information

The other information comprises information included in the annual report, but does not include the parts of the of the Directors' Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extend otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- Information about the group and parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which I report by exception

In the light of the knowledge and understanding of Network Rail Limited and its environment obtained in the course of the audit, I have not identified material misstatements in:
- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

I have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires me to report to you if, in our opinion:
- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit;

Corporate governance statement

The Listing Rules require me to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to Network Rail Limited's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:
- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 136;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate set out in the Viability Statement on pages 87 to 88;
- Directors' statement on fair, balanced and understandable set out on pages 112 and 135;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 116; and
- The section describing the work of the audit & risk committee set out on pages 111 to 116.

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Statement of Responsibilities, the directors are responsible for:
- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud of error.
- assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:
- Inquiring of management, Network Rail Limited's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Network Rail Limited's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to the Railways Act 2005;
- discussing among the engagement team including significant component audit teams, and involving relevant internal and external specialists, including pensions specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud – as part of this discussion, I identified the potential for fraud in revenue recognition, management bias and the posting of unusual journals; and
- obtaining an understanding of Network Rail Limited's framework of authorities as well as other legal and regulatory frameworks that Network Rail Limited operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Network Rail Limited. The key laws and regulations I considered in this context included the Network Licence, Managing Public Money, the Companies Act 2006, relevant tax law, pensions regulations, Health & Safety legislation and the Railways Act 1993.

In addition to the above, my procedures to respond to identified risks included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit & Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- review of Office of Rail and Road publications concerning any regulatory action.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Matthew Kay,
Senior Statutory Auditor
19 July 2021

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road, Victoria
London, SW1W 9SP

INCOME STATEMENT

for the year ended 31 March 2021

	Note	2021 Group £m	2020 Group £m
Revenue	3	**9,618**	**8,099**
Net operating costs	4	**(6,436)**	**(5,777)**
Operating profit	5	**3,182**	**2,322**
Property revaluation movements and profits on disposal		**(5)**	**3**
Profit from operations		**3,177**	**2,325**
Finance income	7	**1**	**7**
Other gains and losses	8	**176**	**213**
Finance costs	9	**(1,741)**	**(2,170)**
Profit before tax		**1,613**	**375**
Tax	10	**(277)**	**(395)**
Profit / (Loss) for the year attributable to the owner of the company		**1,336**	**(20)**

Under section 408 of the Companies Act 2006 the group has elected to take the exemption with regard to disclosing the company income statement. The company's result for the year was £nil (2020: £nil).

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2021

	Note	2021 Group £m	2020 Group £m
Profit/(Loss) for the year		**1,336**	(20)
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Loss on revaluation of the railway network	12	(1,812)	(272)
Actuarial (loss) / gain on defined benefit pension schemes	26	(621)	742
Deferred tax relating to components of other comprehensive income	22	462	(180)
Total items that will not be reclassified to profit or loss		**(1,971)**	**290**
Items that may be reclassified to profit or loss:			
Gain/(Loss) on movement in fair value of cash flow hedge derivatives		-	3
Reclassification of balances in the hedging reserve to the income statement		153	208
Total items that may be reclassified to profit or loss		**153**	**211**
Other comprehensive income for the year		**(1,818)**	**501**
Total comprehensive income for the year		**(482)**	**481**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2021

Group	Revaluation reserve £m	Other reserve* £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 31 March 2020	**2,570**	**249**	**(432)**	**7,002**	**9,389**
Profit for the year	-	-	-	1,336	1,336
Other comprehensive income					
Impact of change in tax rate	-	-	-	-	-
Revaluation of the railway network	(1,812)	-	-	-	(1,812)
Transfer of deemed cost depreciation from revaluation reserve	(34)	-	-	34	-
Decrease in deferred tax liability on the railway network	344	-	-	-	344
Actuarial loss on defined benefit pension schemes	-	-	-	(621)	(621)
Deferred tax on actuarial loss	-	-	-	118	118
Transfer of deferred tax	6	-	-	(6)	-
Increase in fair value of hedging derivatives	-	-	-	-	-
Reclassification of balances in hedging reserve to the income statement	-	-	153	-	153
Total comprehensive income	**(1,496)**	**-**	**153**	**861**	**(482)**
Balance at 31 March 2021	**1,074**	**249**	**(279)**	**7,863**	**8,907**
Balance at 31 March 2019	**2,912**	**249**	**(643)**	**6,390**	**8,908**
Loss for the year	-	-	-	(20)	(20)
Other comprehensive income					
Impact of change in tax rate	(70)	-	-	(19)	(89)
Revaluation of the railway network	(272)	-	-	-	(272)
Transfer of deemed cost depreciation from revaluation reserve	(62)	-	-	62	-
Decrease in deferred tax liability on the railway network	50	-	-	-	50
Actuarial gain on defined benefit pension schemes	-	-	-	742	742
Deferred tax on actuarial gain	-	-	-	(141)	(141)
Transfer of deferred tax	12	-	-	(12)	-
Increase in fair value of hedging derivatives	-	-	3	-	3
Reclassification of balances in hedging reserve to the income statement	-	-	208	-	208
Total comprehensive income	**(342)**	**-**	**211**	**612**	**481**
Balance at 31 March 2020	**2,570**	**249**	**(432)**	**7,002**	**9,389**

* Other reserves of £249m (2020 £249m) include the vesting reserve on privatisation.

There has been no movement in the current or prior year affecting the statement of changes in equity for the company.

BALANCE SHEETS

for the year ended 31 March 2021

	Note	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Assets					
Non-current assets					
Intangible assets	11	61	62	-	-
Right of use assets	24	381	428	-	-
Property, plant and equipment - the rail network	12	71,998	71,809	-	-
Investment property	13	212	227	-	-
Derivative financial instruments	20	191	474	-	-
Interest in joint ventures	14	38	41	-	-
		72,881	**73,041**	**-**	**-**
Current assets					
Assets held for sale	15	28	24	-	-
Inventories	16	286	262	-	-
Trade and other receivables	17	1,543	1,877	-	-
Derivative financial instruments	20	196	10	-	-
Cash and cash equivalents		522	430	-	-
		2,575	**2,603**	**-**	**-**
Total assets		**75,456**	**75,644**	**-**	**-**
Liabilities					
Current liabilities					
Trade and other payables	18	(3,601)	(3,637)	-	-
Current tax liabilities		(5)	-	-	-
Borrowings	19	(8,157)	(10,781)	-	-
Derivative financial instruments	20	(83)	(48)	-	-
Short-term provisions	21	(95)	(80)	-	-
		(11,941)	**(14,546)**	**-**	**-**
Net current liabilities		**(9,366)**	**(11,943)**	**-**	**-**
Non-current liabilities					
Borrowings	19	(47,308)	(44,664)	-	-
Derivative financial instruments	20	(565)	(847)	-	-
Other payables	18	(486)	(548)	-	-
Retirement benefit obligation	26	(2,899)	(2,070)	-	-
Deferred tax liabilities	22	(3,350)	(3,580)	-	-
		(54,608)	**(51,709)**	**-**	**-**
Total liabilities		**(66,549)**	**(66,255)**	**-**	**-**
Net assets		**8,907**	**9,389**	**-**	**-**
Equity					
Revaluation reserve		1,074	2,570	-	-
Other reserve		249	249	-	-
Hedging reserve		(279)	(432)	-	-
Retained earnings		7,863	7,002	-	-
Total shareholder's funds and equity attributable to equity holders of the parent company		**8,907**	**9,389**	**-**	**-**

The financial statements and accompanying disclosure notes on pages 137 to 194 were approved by the board of directors on 15 July 2021 and authorised for issue on 20 July 2021.

They were signed on its behalf by: **Andrew Haines** Chief executive **Jeremy Westlake** Chief financial officer

Company registration number: 4402220

STATEMENT OF CASH FLOWS

for the year ended 31 March 2021

	Note	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Cash flows from operating activities					
Cash generated from operations	23	5,460	4,923	-	-
Interest paid*		(1,351)	(1,448)	-	-
Income tax (paid) / received		(40)	3	-	-
Net cash flows generated from operating activities		**4,069**	**3,478**	**-**	**-**
Investing activities					
Interest received		1	7	-	-
Purchases of property, plant and equipment		(5,894)	(5,781)	-	-
Proceeds on disposal of property		41	534	-	-
Capital grants received		1,979	2,326	-	-
Net cash inflows / (outflows) from joint ventures		3	3	-	-
Net cash used in investing activities		**(3,870)**	**(2,911)**	**-**	**-**
Financing activities					
Repayments of borrowings		(10,991)	(12,304)	-	-
New loans raised		10,841	11,559	-	-
Decrease in collateral posted	19	165	193	-	-
Increase / (Decrease) in collateral held	19	(15)	82	-	-
Repayment of lease liabilities	24	(107)	(117)	-	-
Net cash used in financing activities		**(107)**	**(587)**	**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**92**	**(20)**	**-**	**-**
Cash and cash equivalents at beginning of the year		430	450	-	-
Cash and cash equivalents at end of the year		**522**	**430**	**-**	**-**

* Balance includes the net interest on derivative financial instruments

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2021

1. General information

Network Rail Limited ('the company') is a company limited by guarantee which is incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006. Network Rail Limited is an arm's length body of the Department for Transport.

The company registration number is 4402220.

The company's registered office is situated at 1 Eversholt Street, London NW1 2DN, United Kingdom.

The company's and its subsidiaries' (together 'the group' or 'Network Rail') principal activities are detailed in the 'About us' section on pages 19 to 23.

Network Rail is organised as a single operating segment for financial reporting purposes.

The Secretary of State is the sole member of the Company.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of the rail network to a value determined using an income approach, the revaluation of investment properties, the measurement of certain financial assets and liabilities at fair value through profit and loss (FVTPL) and the measurement of derivative financial instruments at fair value.

The principal accounting policies adopted by the directors are set out below.

Functional and presentation currency

The financial statements are presented in Pound Sterling (£) which is the functional and presentation currency of Network Rail Limited. All values are rounded to the nearest million pounds (£m) unless otherwise stated.

Adoption of new and revised standards

The accounting policies adopted in this set of financial statements are consistent with those set out in the annual financial statements for the year to 31 March 2020.

The following accounting standards have not been early adopted by the company but will become effective in future years:

IFRS 17 Insurance Contracts

IFRS 17 has been adopted by the IASB for periods beginning on or after 1 January 2023 and has not currently been endorsed by the EU. Insurance contracts are defined as contracts under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder and this could also include certain contracts entered into such as fixed-fee for service contracts. Management have not yet considered the impact of the standard on Network Rail.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the 'About us' section on pages 19 to 23, and 'Business unit summaries' on pages 35 to 66. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 30 to 34.

The Directors took into account the publication of the Williams-Shapps Plan for Rail Review and its plans to reform the rail industry. 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 impact of this programme on the structure of the group and hence Network Rail Limited are currently not known and have therefore not led to any impact on the going concern assessment of Network Rail Limited.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers. Network Rail does not expect to undertake any new borrowing in the next 12 months. Instead its activities will be largely funded by grants from the Department for Transport and revenue from customers. Network Rail has secured a £31.9bn loan facility with the Department for Transport (DfT), which it intends to draw upon to specifically refinance its existing debt. This facility remains within its parameters.

Network Rail has eight separate grant agreements in place with DfT and Transport Scotland (TS) to fund activities in the next 12 months. These grants are: with DfT - Network Grant; Enhancements Grant; British Transport Police Grant; Financing Costs Grant for DfT interest; Financing Costs Grant for external interest (bonds and swaps); and Corporation Tax Grant - with TS - Network Grant and Enhancements Grant.

Business plans and financial models are used to project cash flows and monitor financial risks and liquidity positions, forecast future 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 availability and effectiveness of the mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. The board considers the likely effectiveness of such actions through regular monitoring and review of risk management and internal control systems. Further details are set out in the Viability Statement on pages 87 and 88. In addition, Note 25 to the accounts 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.

After making enquiries, including those detailed above, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity / to direct the activities of the entity. Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions. In terms of subsidiaries the group:

- Consolidates subsidiaries from the date on which control passes to the group and deconsolidates from the date control ceases;
- Changes the accounting policies of subsidiaries, where necessary, to ensure consistency with the policies adopted by the group;
- Eliminates intercompany transactions and balances in the group results.

Revenue recognition

The group recognises revenue from the following major sources:

- Grant income – recognised in accordance with IAS 20;
- Franchised network access – recognised in accordance with IFRS 15;
- Freight revenue - recognised in accordance with IFRS 15;
- Property rental income – recognised in accordance with IFRS 16 (See "Leases" accounting policy); and
- Other income – recognised in accordance with IFRS 15.

Network Rail's grant income is recognised in line with IAS 20 'Accounting for Government Grants' – refer to 'Grants' accounting policy.

Network Rail's recognition approach is to recognise franchised network access and freight revenue each period in the financial year.

Performance obligations are based upon fixed and variable volume access to the railway during the relevant year. Performance obligations are satisfied by providing track access over time as per agreement with the train operating companies. There are no significant judgments applied to determine whether performance obligations have been satisfied. The input method is applied based on time lapsed.

Other income consists of Non Franchised fixed and variable network access which will be recognised using the same policy as for Franchised Network access.

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue represents amounts derived from the management and provision of assets for use in the operation of the railway and property rental income net of value added tax. Amounts recognised take account of any performance penalties or bonuses in respect of the year. The performance penalties and bonuses are estimated in each 4 week period based on that period's performance and reflect management's best estimate of the amounts due.

Revenue measurement includes supplements to the access charges and bonuses receivable from, less penalties and rebates payable to, customers and stakeholders. Operating expenditure includes additional contract amounts and bonuses payable to, less penalties receivable from, suppliers and the Office of Rail and Road.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Separate accounting policies have not been adopted for revenue related contract assets / liabilities (deferred income), as the impact of IFRS 15 classification, recognition and measurement is insignificant.

The disaggregation of revenue by source has been disclosed under Note 3.

Grants

Network Rail receives grant funding as a contribution towards both its revenue and capital expenditure.

Revenue Grants are received as a contribution towards Network Rail's running costs and are accounted for in accordance with IAS 20 Government grants. These grants are drawn down by Network Rail against grant agreements based on forecast cash flows of relevant expenditure and are deferred until that expenditure is incurred. Deferred grant income is then credited to revenue on a systematic basis during the period in which Network Rail recognises the related costs as expenses for which the grants are intended to compensate.

Grants related to operations, maintenance and renewals are recognised in-year. Grant income has been agreed across the five-year funding settlement and is drawn down to augment the other sources of revenue in meeting the in-year operations, maintenance and renewals expenses. Operations and maintenance expenditure passes directly through the Income Statement. Expenditure on renewals is instead treated as an addition to PPE since replacing elements of the network is within the scope of IAS 16; however, because the network is carried on a fair value basis with reference to the Regulatory Asset Base, and the Regulator allows for the amortisation of renewals in-year, any such PPE additions are also expensed in year. This expense is taken through Other Comprehensive Income as part of the revaluation of PPE in line with IAS 16 requirements. In line with this, the renewals related element of the network grant is (like operations and maintenance) credited to the Income Statement in the year of the relevant additions and revaluation; no expense remains to be recognised following the revaluation entry since the additions-related asset element has been eliminated through that revaluation. Until the revaluation reserve in relation to the railway network asset is fully utilised, this difference in in-year income and expense will result in the difference between in-year capitalised renewals and the depreciation charge (which is also subject to the same revaluation effect since it is out of scope for the RAB) representing an impact on profit or loss. In 2020-21 the net effect of this was of a £1.9bn credit (2019-20: £1.0bn credit) to the Income Statement

Capital Grants are received as contributions towards the cost of property, plant and equipment from DfT, Transport Scotland (TS) and Third Parties. Network Rail draws down Capital Grants from DfT and TS based on historical costs incurred in order to meet future forecasts cash flows. Third Parties are invoiced for Capital Grants either in advance or arrears based on individual grant agreements. Capital Grants are recognised in the same period as the additions they are intended to fund and are deducted from the fair value of those assets. Capital grants are then credited to the income statement over the economic useful life of the rail network as the related costs are recognised.

Leases

The group as lessor

The group assesses leases where it is lessor in order to determine whether the lease is an operating lease or a finance lease. This assessment is made where the group owns the asset being leased or the group itself is also leasing the asset and hence the lease being assessed is a sub-lease. The assessment considers whether the lease transfers substantially all of the risks and rewards incidental to ownership of the asset being leased. Where the lease is a sub-lease, this assessment is made by reference to the Right of Use asset the group has for the head-lease. If the lease transfers substantially all of the risks and rewards incidental to ownership, then the lease is classified as a finance lease. If it does not, then the lease is classified as an operating lease.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Rental income from operating leases and initial direct costs are recognised on a straight-line basis over the term of the relevant lease.

As part of the response to Covid-19, certain changes to the pattern of cash flows on leases, namely the granting of rent free periods were provided to tenants to aid them through the pandemic. Certain tenants have a fixed portion of rent and a variable element. There is no accounting impact of rent free periods on the variable elements of rental income as the rental income is recognised when earned. In relation to rent free periods for fixed rents, management have considered whether the rent free period constitutes a lease modification and hence whether the rent free period is spread over the revised lease term. Spreading rent over the remaining lease term, results in future rental income being brought forward and recognised in these accounts. In management's view, given the challenges faced by tenants, any rent being brought forward is impaired. As a result, the impact of rent free periods has been reported in the current period. Management will keep these assumptions under review.

The group as lessee

For those leases of not less than 12 months or low value, the Right Of Use (ROU) asset and Lease liability are initially measured on a present value basis.

The present value of the following lease payments is used to determine the value of the lease liability:

- fixed payments less any lease incentive receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. Remeasurement of the lease liability occurs if there is a change in the lease payments (when a corresponding adjustment is made to the ROU asset), the lease term or in the assessment of an option to purchase the underlying asset.

The discount rate used to discount the lease payments is the Group's incremental borrowing rate. This is the rate that the group would have to pay to borrow similar funds to fund a similar asset. ROU assets are initially measured at the same amount as the lease liability plus any initial direct costs.

Each ROU asset is depreciated over the shorter of its useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss.

The company is responsible for infrastructure works from the supply chain, rather than the right to use specific assets. As a result of this, most supply chain assets are generally not 'identified' within the meaning of IFRS 16. As a result the company does not generally retain the rights to direct the how and for what purpose specific assets are used.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the exchange rates prevailing at the balance sheet date. Foreign currency transaction amounts are initially recorded at the exchange rates prevailing on the dates of the transactions. Gains and losses arising on retranslation are included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated before finance income, finance costs, other gains and losses, and revaluation movements and profits on disposal of properties.

Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

For the defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out at least every three years and updates to these valuations carried out in intervening years. The current service cost and plan administration expenses are recognised as an operating expense in the consolidated income statement.

The group's share of the actuarial gains and losses are recognised in full in the period in which they occur.They are recognised outside the income statement and presented in the statement of comprehensive income.

The net interest cost is the charge in the year on the net defined benefit liability. The charge reflects the passage of time and is recognised as a finance cost in the income statement.

Past service cost and credits are recognised immediately in the consolidated income statement.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The group reflects its share of the deficit in the financial statements. The IAS 19 deficit, service cost and interest cost therefore represent 60 per cent of the total for each of the schemes. Further details on the retirement benefit schemes are provided in note 26.

Research and development

Research and general development expenditure is charged to the income statement as incurred. Expenditure on the development of specific projects is capitalised only if all of the following conditions are met:

- An asset is created that can be identified
- It is probable that the asset created will generate future economic benefits
- The development cost of the asset can be measured reliably.

Tax

The tax expense represents the sum of the current tax and deferred tax. The group's current tax liability is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax is based on the taxable results of the group and calculated in accordance with tax rules in the United Kingdom.

Deferred tax is the tax expected to be payable or recoverable on the temporary differences that arise when tax authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated accounts. Deferred tax is calculated under the balance sheet liability method at the rate of tax expected to prevail, subject to the rate being enacted or substantively enacted by that date, when the temporary differences reverse. Deferred tax is not discounted.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised on all deductible temporary differences to the extent that it is probable that there will be taxable profits available against which the temporary timing differences can be utilised.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity. In this case the deferred tax is also accounted for within equity.

Property, plant and equipment – the rail network

The group has one class of property, plant and equipment, being the rail network. This is the integrated network that the group uses to deliver the operation, maintenance and renewal of Great Britain's national rail infrastructure.

Valuation methodology

The rail network is carried in the balance sheet at its fair value. As there is no active market in railway infrastructure assets, the company has derived the fair value of the rail network using an income approach. The income approach assesses the discounted future cash flows that are expected to be generated by the rail network, including an assessment of under and outperformance against the current 5-year regulatory determination.

This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

Depreciation

The rail network is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life. The estimated weighted average remaining useful economic life of the network is currently 40 years (2020: 40 years). The remaining useful economic lives of network assets are estimated annually, with external verification of the valuation and asset lives carried out where required.

Capitalisation of operating costs

In line with IAS 16 Property, plant and equipment all directly attributable costs necessary to deliver the investment programme are capitalised. Employee and other associated costs are capitalised if they arise directly as a result of delivering the investment programme.

Presentation of capital grants

Grants and other contributions received towards the cost of property, plant and equipment are deducted from the fair value of assets which the grant funding relates to. See Note 12. Property, plant and equipment – the rail network for detail of the gross and net values of capital grants included in the property, plant and equipment balance.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Intangible assets

An intangible asset is only recognised if it is probable that future economic benefits will flow to the group and its costs can be measured reliably. Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Licences and concessions are amortised over the length of their contractual agreement. Intangible assets are tested for impairment at each balance sheet date by comparing their carrying value and the expected discounted cash flows expected to arise from them over their contractual agreements. If the carrying value exceeds the discounted cash flows expected to arise from the assets, the carrying value would be impaired accordingly.

Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held for sale, the assets are re-measured in accordance with the accounting policies for the asset category. Subsequently, the assets are held at the lower of carrying value and fair value less costs to sell. Any impairment loss on a disposal group is recognised immediately in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets

Financial assets at amortised cost

Financial assets are classified as at amortised cost where the business model is to hold assets in order to collect contractual cash flows, and the cash flows consist solely of payments of principal and interest (SPPI) on the principal amount outstanding.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, recognised in the income statement.

Financial assets at Fair value Through Profit and Loss (FVTPL)

Financial assets are classified as at FVTPL where the asset does not meet the amortised cost criteria or if doing so, eliminates or significantly reduces or eliminates a measurement or recognition inconsistency. Gains and losses arising from changes in fair value of these assets are recognised in the income statement.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets at FVTPL are stated at fair value with any resultant gain or loss recognised in the income statement.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

The carrying amount of the financial asset is reduced by the impairment loss for all financial assets with the exception of trade receivables, which are reduced by allowances for irrecoverable amounts. As financial assets, trade receivables are subject to the "Expected Credit Loss model" under IFRS 9. The group's exposure to credit risk is limited largely to property rental income, and no significant increase in credit risk has materialised. Therefore, the group has continued to recognise 12 month expected losses that are updated at each reporting date, in the form of allowances for irrecoverable amounts, which approximate the expected losses for the next 12 month period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement. The reversal is only made to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents
Cash and cash equivalents comprise bank balances held by the group and commercial paper at varying rates. The carrying amount of these assets approximates their fair value.

Joint ventures
The results and net assets of joint ventures are incorporated in these financial statements using the equity method of accounting. Investments in joint ventures are carried in the balance sheet at cost and adjusted by post-acquisition changes in the group's share of net assets of joint ventures, less any impairment in the value of individual investments. Losses of a joint venture in excess of the group's interest in a joint venture are not recognised.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial liabilities at Fair Value Through Profit and Loss (FVTPL)
Financial liabilities are classified as at FVTPL where the financial liability is a derivative financial liability or designated at FVTPL at initial recognition.

A financial liability is designated as FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise exist.

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or expire.

Debt
Debt instruments not designated at FVTPL are initially measured at fair value, net of discount and direct issue costs, and subsequently recognised at amortised cost using straight line amortisation as a proxy for the IFRS 9 effective interest rate method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Certain bonds, as set out in Note 19, are designated at FVTPL. These bonds are hedged by derivative financial instruments as part of a documented risk management strategy. By recognising these bonds and derivatives at FVTPL the recognition inconsistencies that would otherwise exist with regard to these risk management strategies are significantly reduced.

Trade payables
Trade payables are ordinarily not interest bearing and are stated at amortised cost.

Derivative financial instruments and hedge accounting
The group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The group uses interest rate swaps, cross-currency swaps and foreign exchange forward contracts to hedge these exposures. The use of financial derivatives is governed by the group's policies approved by the treasury committee of the board, which provide written principles on the use of financial derivatives.

Almost all the hedged events have now occurred and there will be no new hedging programme. Under IFRS 9, the group have opted to continue to apply the hedge accounting requirements of IAS 39 until the hedging programme is finalised.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Derivatives are presented on the balance sheet in line with their maturity date.

The group designates certain hedging instruments as either cash flow hedges or fair value hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair value or cash flows of the hedged item.

Some derivatives, while complying with the group's financial risk management policies, do not qualify for hedge accounting and are therefore classified as financial instruments at FVTPL. Changes in the fair value of derivative financial instruments that do not qualify for cash flow hedge accounting are recognised in the income statement as they arise.

Cashflow hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised or no longer meets the criteria for hedge accounting. Where the hedging instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period when the hedge was effective remains in equity until the forecast transaction occurs.

In the instance where cashflow hedge accounting is discontinued since the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that remains recognised directly in equity from the period where the hedge was effective is recognised in the income statement.

Embedded derivatives within a financial asset host contract are not separated from the host contract, instead, the whole contract in its entirety is accounted for as a single financial instrument.

Embedded derivatives within a host contract that is a financial liability are separated from the host contract and accounted for as a derivative financial instrument when economic characteristics of the embedded derivative and host are not closely related, an identical instrument (with the same terms) would meet the definition of a derivative, and the entire contract is not measured at fair value through profit or loss. Gains or losses from the movement in fair value of the financial instrument are reported in the income statement. There are no separated embedded derivatives included in the financial statements.

Note 20 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in the statement of changes in equity and in the statement of comprehensive income.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income, and the ineffective portion is recognised immediately within 'other gains and losses' in the income statement.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Critical accounting judgements and key sources of uncertainty

(i) Property, plant and equipment – the rail network: the estimate of the fair value of the rail network is based on an income approach using the regulatory asset base, which equates to the discounted future cash flows associated with the network, adjusted for the net present value of any variances from the Office of Rail and Road's determination using the building block model of regulation.

The most significant judgement underpinning the valuation is that the regulatory framework and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. Management assess that based on the current regulatory environment, an investor could reasonably expect to recover the RAB value through the revenue deriving from future amortisation allowances and the regulatory return thereon. In its assessment management has considered the amendments to the regulatory framework that are set out in the regulator's determination for Control Period 6 (2019-2024), and noted that although the regulated asset base has ceased to be a building block in the determination of the company's revenue requirement, the link between income and the regulated asset base would be reinstated in the event that the rail network asset were transferred to a private owner.

In addition, disposals from railway network in the last two years have been in line with the carrying value of the railway network. This emphasises that the valuation approach undertaken in these accounts remains appropriate.

Management have also considered whether the portfolio of assets held for sale should continue to be deducted against the RAB in arriving at the fair value of the rail network, and based on an assessment of likely regulatory action in the event of a sale, have concluded that this remains appropriate. Further detail on this and other key judgements applied in the valuation are set out in Note 12.

The key source of estimation uncertainty within the valuation is the assessment of future performance against the regulatory determination which is discussed in more detail in Note 12.

Whilst not affecting the fair value of the asset recognised at the balance sheet date, management's assessment of the remaining life of the asset affects the depreciation that is charged on the asset and is also an area of estimation uncertainty. IAS 16 requires that management regularly review asset lives on at least an annual basis and that depreciation is charged on a systematic basis that reflects the way the asset is consumed. In March 2019 Network Rail produced a detailed and rigorous depreciated replacement cost (DRC) valuation of the rail network for inclusion in DfT's group accounts. In preparing these financial statements management reviewed the weighted average remaining asset lives as produced in the DRC valuation and concluded that it is still appropriate to use 40 years as the weighted average remaining life.

Cost of Work Done (COWD): The additions to Property, plant and equipment are valued using an estimate of the cost of work done in the year to 31 March. To the extent that the COWD is greater than the invoiced amount, a PPE addition and 'other payable' (Note 18) are recognised on the basis of expected amounts required to settle contractual obligations. COWD assessments are predominantly based on information readily available to project managers on the status of works, but some estimation uncertainty is involved in the year-end measurement, in respect of the evaluation of how contractual dispute positions are likely to resolve, and in measuring the value of works performed at the precise year end date.

(ii) Investment property – an element of the investment property portfolio valuation is determined using the Beacon method. Jones Lang LaSalle provided their assessment of yields for 18 classes of property and areas in the portfolio. These are then used to produce income multipliers and applied to the rental streams from each of the individual properties in the portfolio to form an overall valuation. For investment property transferred to assets held for sale this is also the inherited method of valuation. Further details are set out in Note 13.

(iii) Retirement benefit obligations – the group recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 (Revised) '**Employee Benefits**'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy among others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 26. The total contribution rate payable under the Railway Pension Scheme (RPS) and the Career Average Revalued Earnings (CARE) scheme is normally split in the proportion 60:40 between the group and the members, respectively. The group reflects its share of the contribution in the financial statements.

(iv) Taxation – the group recognises and discloses its deferred tax assets in accordance with IAS 12. Where it is considered to be probable that deferred tax assets can be matched to future taxable profits then deferred tax assets are recognised, or offset against the overall deferred tax provision as appropriate. This evaluation requires significant judgements to be made, including the uncertainty of the availability of future taxable profits. Further details are set out in Note 10.

3. Revenue

	2021 Group £m	2020 Group £m
Grant income	6,642	5,259
Franchised network access	2,815	2,507
Freight revenue	45	43
Property rental income	81	254
Other income	35	36
Revenue	**9,618**	**8,099**

Qualitative disclosure

The effect of the performance regimes was a net profit of £329m (2020: net loss of £30m) which led to an increase in revenue of the respective amount. The performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

The group has assessed its revenue recognition in accordance with IFRS15 and has deemed that it derives the vast majority of its revenue over-time. Revenue recognised at a point in time is not material in the financial year and therefore is not disclosed separately.

Grant income, franchised network access, freight revenue and property rental income, recognised in line with the accounting policies, were recognised upon fulfilment of the contractual performance obligations, by providing track access or access to rental property, in line with the terms of the existing customer contracts. Recognition is over time, and the input method, specifically time lapsed, is used as the basis for revenue recognition. There are no alternative performance obligations identified for individual contracts within the disaggregated revenue streams.

There are no recognised contract assets, as defined by IFRS 15, that relate to recognised revenue disaggregated in the above table.

4. Net operating costs

	2021 Group £m	2020 Group £m
Employee costs (see Note 6)	2,802	2,715
Own costs capitalised	(1,102)	(1,091)
Other external charges (including infrastructure maintenance costs)	3,083	2,613
Other operating income and recoveries	(304)	(313)
Net operating costs before depreciation and amortisation	**4,479**	**3,924**
Depreciation (see Notes 12 and 24)	2,094	2,022
Amortisation of grants	(137)	(169)
Net operating costs	**6,436**	**5,777**

5. Profit from operations

Total profit from operations is stated after charging/(crediting):

	2021 Group £m	2020 Group £m
Research and development costs expensed	50	30
Amortisation of intangible assets	1	1
Profit on sale of properties	-	-
Decrease / (Increase) in the fair value of investment properties	5	(3)
Cost of inventories recognised as an expense	255	243
Write down of inventories recognised as an expense	9	6
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.47	0.46
Fees payable to the company's auditors for audit related services:		
– The audit of the company's subsidiaries	0.06	0.05
– Regulatory accounts audit and interim review	0.06	0.06
Total amounts payable to group auditors	**0.59**	**0.57**

For financial years ended 31 March 2021 and 2020 no fees were payable to the company's auditors in respect of non-audit related services. In addition to the audit fee information given in the table the group pays £0.2m for the audit of subsidiaries that are not performed by the group auditor.

6. Employee costs

The monthly average number of employees (including executive directors) was:

	2021 Group Number	2020 Group Number
Management and operation of the railway	**44,356**	**42,099**

	2021 Group £m	2020 Group £m
Their aggregate remuneration comprised:		
Wages and salaries	2,269	2,168
Social security costs	243	241
Defined contribution pension costs (see Note 26)	24	23
Defined benefit pension costs – current service costs (see Note 26)	266	283
Total employee costs	**2,802**	**2,715**

In the years ended 31 March 2021 and 31 March 2020 key management personnel were all the executive directors and the chair of the board of directors. Full details of their remuneration are included within the annual remuneration report on pages 122 to 133.

7. Finance income

	2021 Group £m	2020 Group £m
Interest receivable on investments and deposits	**1**	**7**
	1	**7**

Finance income earned on financial assets analysed by category of asset is as follows:

	2021 Group £m	2020 Group £m
Financial assets at amortised cost (including cash and bank balances)	**1**	**7**
	1	**7**

8. Other gains and losses

	2021 Group £m	2020 Group £m
Net ineffectiveness arising from cash flow hedge accounting	20	(19)
Fair value loss on fair value hedges	(4)	-
Fair value gain on carrying value of fair value hedged debt	-	-
Gain arising from fair value hedge accounting	**(4)**	**-**
Net increase / (decrease) in fair value of non-hedge accounted debt	30	(4)
Gain on derivatives not hedge accounted	130	236
Gain arising from non-hedge accounting	**160**	**232**
Total other gains	176	213

No other gains and losses have been recognised in respect of financial assets or liabilities other than those disclosed in this note. No gains or losses have been recognised on financial liabilities measured at amortised cost other than those disclosed in Note 9.

The movement in fair value of debt designated as fair value through profit and loss and exchange differences on retranslation of foreign currency debt that form part of the above total other gains and losses are in relation to debt issuances disclosed in Note 19.

9. Finance costs

	2021 Group £m	2020 Group £m
Interest on bank loans and overdrafts	14	16
Interest on loan issued by Department for Transport	637	688
Interest on bonds issued under the Debt Issuance Programme	851	1,163
Interest on derivative instruments	184	230
Defined benefit pension interest cost (see note 26)	44	58
Lease interest payable (Note 24)	11	15
Total finance costs	**1,741**	**2,170**

10. Tax

The tax credit is made up as follows:

	2021 Group £m	2020 Group £m
Current tax:		
Corporation tax charge	(45)	-
Adjustment in respect of prior years	-	-
Total current tax charge	**(45)**	**-**
Deferred tax:		
Current year charge	(173)	(107)
Effect of rate change	-	(265)
Adjustment in respect of prior years	(59)	(23)
Total deferred tax charge	**(232)**	**(395)**
Total tax charge	**(277)**	**(395)**

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2021 Group £m	2020 Group £m
Profit/(Loss) before tax	1,613	375
Tax at the UK corporation tax rate of 19 per cent (2020: 19 per cent)	(306)	(71)
Adjustments in respect of prior years	(59)	(23)
Rate changes	-	(265)
Expenses / (Income) not subject to tax	51	(39)
Derecognition of tax assets – brought forward	-	2
De-recognition of deferred tax assets recognised in the year	-	-
Utilisation of tax losses previously derecognised	-	1
Advance corporation tax previously written off	37	-
Total tax charge/(credit) for the year	**(277)**	**(395)**

Under IAS12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. As in 2020, it remains improbable that Network Rail will produce a level of taxable profits that will allow for recognition of a deferred tax asset relating to the trading losses carried forward. Network Rail uses all its profits to fund capital expenditure. Following the Budget in March 2021, Network Rail will be able to claim the "super allowance" deduction on certain capital expenditure. Management's current assessment is that it is likely that these capital allowances will mean there is no significant taxable income for the two years to 31 March 2023. In these 2 years then, capital allowances will cover the taxable profit and mean that there is no expected need for use of losses. Beyond the current funding regime, there is no certainty over the funding mechanism of Network Rail and hence the use of any losses.

The Group has utilised the asset for surplus ACT asset brought forward of £36.9m in the financial year.

Deferred tax at 31 March 2021 is calculated at a rate of 19 per cent (2020: 19 per cent) based on the tax rate expected to prevail based on legislative enactments at the point temporary differences resolve. The amount at which temporary differences crystallise is sensitive to the decisions on future tax laws to be taken by Parliament.

UK corporation tax is calculated at 19 per cent (2020: 19 per cent). Following Budget 2020, the corporation tax main rate remains at 19 % for the financial year beginning 1 April 2021. This maintains the rate at 19 %, rather than increasing it to 25 % from 1 April 2021. In Budget 2021 it was announced the corporation tax rate will increase to 25 % with effect from 1 April 2023. This amendment was not substantively enacted at 31 March 2021.

11. Intangible assets

Group	Concession £m
Cost	
At 1 April 2019, 31 March 2020 and 31 March 2021	**78**
Accumulated amortisation	
At 31 March 2019	**(15)**
Charge for the year	(1)
At 31 March 2020	**(16)**
Charge for the year	(1)
At 31 March 2021	**(17)**
Carrying amount	
At 31 March 2021	**61**
At 31 March 2020	**62**

The intangible assets above relate to separable economic rights associated with the concession to run the operations, maintenance and renewal business of High Speed 1, and are held by the wholly owned company Network Rail (High Speed) Limited.

Intangible assets are being amortised over the life of the licence of 83 years to 2086. Amortisation is charged to net operating costs in the income statement.

12. Property, plant and equipment – the rail network

	Group assets £m	Group capital grants deferred £m	Group carrying value £m
Valuation			
At 31 March 2019	**76,263**	**(4,796)**	**71,467**
Additions – Enhancements	2,247	(2,247)	-
Additions - Renewals	2,929	-	2,929
Total Additions	**5,176**	**(2,247)**	**2,929**
Disposals	(517)	-	(517)
Transfers to held for sale	(23)	-	(23)
(Depreciation charge)/ grant amortisation for the year	(1,937)	162	(1,775)
Revaluation in the year	(272)	-	(272)
At 31 March 2020	**78,690**	**(6,881)**	**71,809**
Additions - Enhancements	2,029	(2,029)	-
Additions – Renewals	3,899	-	3,899
Total Additions	**5,928**	**(2,029)**	**3,899**
Disposals	(30)	-	(30)
Transfers to held for sale	-	-	-
Transfer to investment property	(5)	-	(5)
(Depreciation charge)/ grant amortisation for the year	(1,992)	129	(1,863)
Revaluation in the year	(1,812)	-	(1,812)
At 31 March 2021	**80,779**	**(8,781)**	**71,998**

Given the economic and physical interdependency of the assets comprising the rail network, the company has concluded that the rail network is considered as a single class of asset. The rail network is carried at its fair value.

As there is no active market in railway infrastructure assets, the company has derived the fair value of the rail network using an income approach. Under this approach the cash flows that a network licence holder expects to generate from the rail network are assessed using a market rate of return. This valuation is carried out twice a year and revaluation gains and losses are reflected in other comprehensive income.

The independent rail regulator, the Office of Rail and Road (ORR), stated (in the 2018 periodic review final determination: Supplementary document – financial framework) that a private network licence holder of the railway network would have its revenue requirement determined using the building block model of regulation. Under this model the network licence

holder's annual income (received in the form of the network grant and track access charges) would comprise:
a) The regulator's assessment of the efficient costs of operating and maintaining the network
b) An allowance for Regulatory Asset Base (RAB) amortisation – qualifying capital expenditure is added to the RAB as incurred and recovered by the company through future amortisation allowances (in order to spread the cost to customers and stakeholders of investment in the rail network over many years).
c) An allowed return on the RAB – calculated by applying the rate of return permitted by the ORR (based on its assessment of the market's cost of capital) to the RAB balance.

In the determination for Control Period 6 (2019-2024), published on 31 October 2018, ORR explained that from 1 April 2019 the RAB ceased to be a building block in the determination of the company's revenue requirement, but that the previous method of revenue determination would be restored if the rail network asset were to be transferred to a private owner. IFRS 13 Fair Value Measurement requires management to assess fair value from the perspective of a theoretical market participant, rather than on the basis of the value-in use. Accordingly, the amendments made to the regulatory framework for Control Period 6, which reflect the proximity of Network Rail to the public sector and which would not apply to a market participant, are not relevant to the valuation.

Future cash flows under (a) are assumed to be equivalent over time to the network licence holder's actual costs of operation and maintenance, on the basis that the Regulator aims to set targets which are ambitious but achievable. These therefore have no net impact on forecast future cash flows, or the valuations. The allowed return (c) is based on a cost of capital which would be offset in a discounted future cash flows model (see Discount rate below). The economic rights inherent in ownership of the regulated rail network asset are therefore vested primarily in the value of the RAB, which will be recovered through future regulated income as the RAB is amortised (b).

This means that it is possible for the RAB itself to be used as the starting point for a discounted cash flow valuation. The RAB fluctuates in valuation; increasing in value principally as a result of allowances for capital expenditure and inflation indexation, whilst reducing for amortisation. The adjustments may give rise to upwards or downwards revaluations. Further changes are subject to:
a) Adjustment for any difference between regulatory rate of return and the market cost of capital that a third party investor would use to assess the value of the network (the rate of return and market cost of capital are currently assessed as fully aligned); and
b) Adjustment for forecast future under or out performance against the regulatory determination over the remainder of the current control period. No adjustment is made in respect of future control periods on the expectation of the Regulator setting, over the long term, ambitious but achievable determination. See forecast performance variation below.

When valuing the network, management is required to consider the value a knowledgeable willing party would place on the network in an arm's length transaction. On the grounds that third party investors are known to value the assets of regulated companies by reference to the RAB, and that the cash flows associated with the regulatory framework are considered sufficiently stable and robust to form the basis of a third party valuation, management has used the RAB as the starting point for its valuation.

Third party funding
Additions to the railway network funded by capital grant, rather than via the RAB funding mechanism, are included in the valuation at cost. The carrying value of property, plant and equipment is calculated after netting off associated grant funding received or receivable.

Disposals
The disposals of £30m were as the result of property sales in the usual course of business. In line with Regulatory Accounting Guidelines the net proceeds of sales are deducted from the RAB, reducing the valuation of the Railway Network Valuation. The valuation of the disposals is assessed as being equal to the reduction in the valuation of the Railway Network relating to property sales.

Depreciation
The depreciation charge for any year is calculated using the average carrying value for the year and the estimated remaining weighted average useful economic life of the rail network. The remaining weighted average useful economic life of the rail network was calculated using the engineering assessment of serviceable economic lives of the major categories that comprise the rail network. The estimated remaining weighted average useful economic life of the network is currently 40 years (2020: 40 years).

Discount rate
The discount rate used in the income approach is the pre-tax rate of return set by the ORR. The ORR performs a periodic review every five years, which leads to the setting of the appropriate rate for the five-year period. The ORR's method encompasses advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail. Management believes this cost of capital reflects the assumptions that a market participant would make in arriving at a discount rate.

Should the ORR amend the permitted rate of return in future quinquennial reviews, the regulator would raise or lower the permitted charges to customers so as to achieve the new rate of return. In other words, the cash flows would change but the RAB would not.

The ORR confirmed that a conventionally funded market participant would receive an allowed return equal to the full market cost of capital. This has been reiterated in their final determination for CP6. Management expects that if the rail network asset were to be transferred to a private owner during CP6, ORR would determine the private owner's revenue requirement for CP6 using the pre-tax (CPI) WACC of 4.15 % set out in their final determination for this Control Period. Management expects that the rate of return set by the regulator in subsequent quinquennial reviews will be consistent with the market discount rates for infrastructure assets at the quinquennial review date.

Accordingly, the valuation includes a reassessment of this rate to determine whether it continues to reflect market conditions. This assessment is by reference to movements in observable market data, including the risk-free cost of borrowing, and changes in the weighted average cost of capital of listed utilities with similar gearing ratios. The following table shows the effect of changes in the market discount rate on the carrying value of the rail network and on the depreciation charge. The analysis only considers the effects of movements in the market discount rate until the end of Control Period 6 (2024), and not in perpetuity. The effect of changes in the market discount rate apply equally to increases and to decreases in discount rates.

	Change in cost of capital (basis points)	31 March 2021	31 March 2020
Change in fair value	25	**£483m**	£843m
	50	**£967m**	£1,682m
Percentage change in fair value	25	**0.7%**	1.2 %
	50	**1.3%**	2.3 %
Change in annual depreciation charge	25	**£12m**	£21m
	50	**£24m**	£42m

Forecast performance variations

In assessing the value of the rail network, management considers that a knowledgeable willing third party would take into account the perceived fairness and deliverability of the current regulatory determination. Accordingly, management makes an addition (or deduction) to the valuation for its assessment of the likely ORR determination in respect of the financial consequences of anticipated future out (or under) performance against the regulatory determination.

Cost outturns on capital work (renewals and enhancements) have an impact on future cash flows under the regulatory framework, since only efficient overspending in excess of regulated cost targets can be added to the RAB.

At 31 March 2021 the valuation included £475m (2020: £475m) of projected financial underperformance, which is expected to crystallise in the income statement over the next three years. The 2020 valuation included an increase of £194m to £475m largely as a result of the impact on property income, particularly retail income in our stations, of the measures taken to safeguard against the public health impact of the global pandemic. The expectation at the prior year end was that a significant portion of the £475m underperformance would occur in the 20/21 financial year leading to the balance reducing to pre-pandemic levels at 31 March 2021. However, as the national measures taken have continued during the current financial year and the outlook for future passenger recovery has been re-considered, the expectation of underperformance in years 2021-22 onwards has been revised. The reduction in performance in future years relates principally to property income with the expectation now being that this will not recover to pre-pandemic levels during this Control Period. It is expected that at the end of the control period, property income will have recovered to 80 % of pre-pandemic levels. In making this assumption, Network Rail notes the long-term value of managed station presence to our tenants during and after economic recovery, and as a driver for sales as station footfall increases. If the property income underperformance expected in 21-22 were to continue for the remainder of the Control Period then this would result in an increase in the overall underperformance of £310m. However, other factors would be expected to change at the same time that would reduce this underperformance.

Measures taken to change franchise contracts by both DfT and Transport Scotland has continued to allow train operating companies to settle amounts owed to Network Rail as they fall due.

Forecasting the future cash flows produces a broader range of scenarios as a result of uncertainty in economic projections following the global pandemic. The potential range of outcomes was around 3 % of the valuation.

Revaluation

As noted above, the RAB is used as the starting point for the valuation. The RAB fluctuates in valuation; increasing in value principally as a result of allowances for capital expenditure and inflation indexation, whilst reducing for amortisation. In the current year, the low levels of inflation combined with significant levels of renewals results in the RAB amortisation charge outweighing the IAS 16 depreciation charge by £1,917m. This difference drives the revaluation loss of £1,812m.

Critical judgements

The valuation includes the following critical judgements:

a) The regulatory framework, and associated cash flows remain sufficiently stable and robust to form the basis of a third party valuation. As noted above, the ORR has made it clear in its final determination for Control Period 6 that the amendments made to the regulatory framework for CP6 reflect the proximity of Network Rail to the public sector and the amendments would not apply to a market participant.
b) The ORR has committed to providing a market cost of capital return to a conventionally funded owner and operator of the network and the fair value calculation has been prepared on that basis. Accordingly, no adjustment has been made to the valuation in respect of the difference between the regulatory rate of return and a market participant cost of capital.
c) Management's assessment of the deliverability of the current regulatory determination is a good indication of how other management groups would perform against the determination.
d) The deliverability of the current 5-year regulatory determination does not have any implication for the deliverability of future determinations (i.e. the ambition of the regulator at the start of each Control Period is to set the regulatory determination at a level which is challenging but achievable).
e) The RAB includes historic expenditure on the company's investment properties. In accordance with IAS 40 Investment Property and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations the fair value of investment property and assets held for sale is separately recognised in Notes 13 and 15 to the accounts. The fair value of the railway network excludes the fair value of RAB-funded investment properties (and assets held for sale) on the grounds that a private owner of the railway network would not expect to derive any future economic benefit from the sale of investment property (i.e. the regulator would make a downwards adjustment to the RAB for the value of any investment properties sold). The valuation performed at 31 March 2021 includes a downwards adjustment of £240m to exclude the fair value of investment property and assets held for sale (31 March 2020: £251m).
f) When considering the appropriateness of the valuation methodology, the Directors took into account the publication of the Williams-Shapps Plan for Rail Review and its plans to reform the rail industry. The directors concluded that the current methodology remained appropriate. In considering this, the directors noted that disposals from the railway network in the last two years have been in line with the carrying value of the railway network. This emphasises that the valuation approach undertaken in these accounts remains appropriate.

At 31 March 2021 the group had entered into contractual commitments in respect of capital expenditure amounting to £2,716m (2020 restated: £2,291m).

We have classified the valuation of the rail network as Level 3 under IFRS 13. The network's fair value is the estimated future cash flows that will be generated in perpetuity, discounted at the regulatory cost of capital, as set by the ORR in its Periodic Review. The cost of capital at which cash flows are discounted is the key unobservable input in the valuation. The full market cost of capital determined by the ORR, on an annual basis, is 3.8 % (2020:3.8 %) for the current control period. This is arrived at through advice from consultants, comparisons to similar infrastructure assets and discussions with Network Rail.

An increase in the market cost of capital would lead to a decrease in the valuation of the rail network and vice versa. However, the impact would be limited to the current control period as the regulator would re-evaluate the allowed return and reset it to the market rate at the next quinquennial review.

13. Investment property

	Group £m
Fair value	
At 31 March 2019	**232**
Additions	-
Disposals	(8)
Transfer (to)/from property, plant and equipment	-
Transfer (to)/from assets held for sale	-
Increase in fair value in the year	3
At 31 March 2020	**227**
Additions	-
Disposals	(11)
Transfer (to)/from property, plant and equipment	5
Transfer (to)/from assets held for sale (Note 15)	(4)
Decrease in fair value in the year	(5)
At 31 March 2021	**212**

The market values of the group's investment properties at 31 March 2021 have been arrived at on the basis of a valuation carried out at that date in conjunction with Jones Lang LaSalle, external valuers not connected with the group. Network Rail Property undertake a detailed review of the investment property portfolio to allocate the portfolio to beacons which represent particular groups of property sharing the same characteristics. Network Rail Property apply yields provided by Jones Lang LaSalle to these beacon categories. Jones Lang LaSalle will also value specific properties, as instructed by Network Rail Property.

Management are satisfied that Jones Lang LaSalle hold a recognised and relevant professional qualification, and have had recent experience in the location and category of the investment property being valued. The fair value of the group's investment property portfolio is deemed to be the market value.

The valuation, which conforms to International Valuation Standards, was arrived at by splitting the portfolio between one-off individual properties to be valued separately and the remainder of the portfolio to be valued under the Beacon method.

Jones Lang LaSalle provided independent valuations of 13 one-off individual properties (2020: 11), amounting to 48 per cent (2020: 46 per cent) of the total valuation. The balance of the estate was valued under the Beacon method by splitting the portfolio into 18 homogeneous classes (2020: 18) of property and areas, assuming that the current passing rent received from these properties are in line with market rent. Jones Lang LaSalle independently assessed the appropriate yield to be adopted within each of these classes and areas. This enabled the directors to estimate market values by applying the provided yields to the net rental income from these properties, in accordance with a standard UK investment property valuation.

The property rental income earned by the group from assets categorised at the year end as investment property, all of which is leased out under operating leases, amounted to £9.7m (2020: £15.6m). Direct operating expenses arising on the investment properties in the year amounted to £3.2m (2020: £2.9m).

The group's investment properties are let on a tenant repairing basis. The group's maintenance obligations are limited to common areas and vacant property units.

Property valuations are by their nature subjective, as they are made on the basis of assumptions made by the valuer. They have been classified as Level 3 and the key inputs to the valuations, defined as 'unobservable' by IFRS 13, are analysed in the table below.

		Estimated rental value per sq. ft			Equivalent yield		
	Fair value at 31 March 2021 £m	Minimum £	Maximum £	Weighted average £	Minimum %	Maximum %	Weighted average %
Valuation Technique:							
One-off valuation	**103**	**0.39**	**172.94**	5.3	3.6	12.5	6.3
Beacon method*	**109**	**n/a**	**n/a**	n/a	5.0	15.0	8.6

* The Beacon methodology splits all the properties within the portfolio into 18 homogenous groups. The properties in each group are valued by applying a yield to the annual rent (passing or void) for the property. Yields applied are on the basis that the property is rack rented i.e. the current passing rent received from these properties are in line with market rent. As such, an estimated rental value per square feet for these properties is not available.

All other factors being equal, a higher yield would lead to a decrease in the valuation of a property and an increase in the current or estimated future rental stream would have the effect of increasing the capital value, and vice versa. However, there are interrelationships between the unobservable inputs which are influenced by market conditions, which would impact the changes in fair value.

14. Investment in subsidiaries and joint ventures

Subsidiaries in the financial statements are included in the table below.

Principal subsidiaries	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Network Rail Infrastructure Limited	Great Britain	100 %	Operation, maintenance and renewal of the national railway infrastructure
Network Rail Insurance Limited	Guernsey	100 %	Insurance
Network Rail Holdco Limited*	Great Britain	100 %	Holding company of Network Rail Infrastructure Limited
Network Rail (High Speed) Limited	Great Britain	100 %	Holds St Pancras concession and High Speed Railway Services Agreement
Network Rail Development Limited	Great Britain	100 %	Holds 49.95 % of each of the property joint ventures Solum Regeneration Limited Partnership and Solum Regeneration Epsom Limited Partnership
Network Rail Pension Trustee Limited	Great Britain	Company limited by guarantee	Administration of defined contribution and CARE defined benefit pension schemes
Network Rail Consulting Limited	Great Britain	100 %	International rail consultancy
Network Rail Certification Body Limited	Great Britain	100 %	Conformity assessment services to the rail industry
Network Rail (VY1) Limited	Great Britain	100 %	Holds land required for works access
Network Rail (VY2) Limited	Great Britain	100 %	Holds land required for works access
Network Rail (Stations) Limited	Great Britain	100 %	Holds a head lease for a retail development
Network Rail (Projects) Limited	Great Britain	100 %	Non trading
Network Rail (Assets) Limited	Great Britain	Company limited by guarantee	Other business support activities
Network Rail Corporate Secretary Limited	Great Britain	100 %	The company provides secretarial services to other companies within the Network Rail group
Network Rail Property Limited	Great Britain	100 %	To assess the integrated performance of NR's property business
Victoria Place Shopping Centre Ltd	Great Britain	100 %	Real estate
Spacia (2002) Ltd	Great Britain	100 %	Non trading company
Railway Property Ltd	Great Britain	100 %	Non trading company
Kew Bridge Manco Limited	Great Britain	Company limited by guarantee	Non trading company
Railway Safety & Standards	Great Britain	Company limited by guarantee	Non trading company
Railway Safety	Great Britain	Company limited by guarantee	Other passenger land transport
Shares held by a trustee			
Network Rail Infrastructure Finance PLC	Great Britain	Intertrust Corporate Services Limited	Issuer of the Debt Issuance Programme
Network Rail MTN Finance Limited	Great Britain	Intertrust Corporate Services Limited 99.998 %, Intertrust Nominees limited 0.002 %	Issuer of NR's Mediun Term Note ('MTN') Programme.

* Directly owned by Network Rail Limited company.

The shares in Network Rail Infrastructure Finance PLC are held by Intertrust Corporate Services Limited, for charitable purposes. The sole purpose of this company is to act as a special purpose funding vehicle. The company is treated as a subsidiary for accounting purposes as proceeds from debt issuances are lent on to Network Rail Infrastructure Limited and are used to finance the activities and to refinance the existing debt of the group.

Network Rail Infrastructure Limited is a member of Newcastle NE1 Limited. Newcastle NE1 Limited is a not for profit limited company (by guarantee); NRIL's liability as a member is limited to an amount not exceeding £1. The company is a Business Improvement District representing several businesses in Newcastle.

Joint ventures accounted for by the equity accounting method in the financial statements are included in the table below.

Joint ventures	Country of incorporation	Proportion of all classes of issued share capital owned	Principal activities
Innova Investment Partnership GP Limited	Great Britain	50 %	Hold 0.1 % in Innova Investment Limited Partnership
Innova Investment Limited Partnership	Great Britain	49.95 %	Property development
West Hampstead Square LLP	Great Britain	50 %	Property development
Blocwork LLP	Great Britain	50 %	Property development
Blocwork (Henley) LLP	Great Britain	50 %	Property development
Blocwork Projects LLP	Great Britain	50 %	Property development
The Station Office Network LLP	Great Britain	50 %	Provides flexible office space, meeting rooms and virtual offices
Solum Regeneration Epsom (GP) Limited	Great Britain	50 %	Hold 0.1 % in Solum Regeneration (Epsom) Limited Partnership
Solum Regeneration (Epsom) Limited Partnership	Great Britain	49.95 %	Property development
Solum Regeneration (Haywards) LLP	Great Britain	50 %	Property development
Solum Regeneration (Guildford) LLP	Great Britain	50 %	Property development
Solum Regeneration (Twickenham) LLP	Great Britain	50 %	Property development
Solum Regeneration (Bishops) LLP	Great Britain	50 %	Property development
Solum Regeneration (Surbiton) LLP	Great Britain	50 %	Property development
Solum Regeneration Holding 2 LLP	Great Britain	50 %	Property development
Solum Regeneration (Maidstone) LLP	Great Britain	50 %	Property development
Solum Regeneration (Walthamstow) LLP	Great Britain	50 %	Property development
Solum Regeneration (Redhill) LLP	Great Britain	50 %	Property development
Solum Regeneration (Kingswood) LLP	Great Britain	50 %	Property development
Solum Regeneration Holding 1 LLP	Great Britain	50 %	Property development

The movement in the investment in joint ventures is as follows:

	2021 Group £m	2020 Group £m
At 1 April	41	44
Investment in joint ventures	5	(1)
Share of loss	(8)	(2)
At 31 March	**38**	**41**

15. Assets held for sale

	2021 Group £m	2020 Group £m
At 1 April	24	10
Transfer from investment property	4	-
Transfer from trade and other payables	-	-
Transfers from property, plant and equipment	-	23
Additions	-	-
Disposals		(9)
At 31 March	**28**	**24**

Under IFRS 13, the assets are classified as Level 3.

16. Inventories

	2021 Group £m	2020 Group £m
Raw materials and consumables	**286**	**262**

As at 31 March 2021 a provision of £31m (2020: £27m) was held in respect of inventories.

17. Trade and other receivables

Current assets: trade and other receivables	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Trade receivables				
- receivable from contracts with other customers	236	262	-	-
- receivable from agreements with government	-	-	-	-
- receivable from property portfolio customers	134	164	-	-
Capital grants receivable	394	503	-	-
Other taxation and social security	150	135	-	-
Collateral receivable	369	534	-	-
Other receivables	35	32	-	-
Prepayments	80	70	-	-
Accrued income				
- receivable from contracts with other customers	115	124	-	-
- receivable from property portfolio customers	30	53	-	-
Total	**1,543**	**1,877**	**-**	**-**

Trade receivables from contracts with customers, agreements with government and from the property portfolio are all based on unconditional rights to consideration, and are not contingent on conditional or dependent on satisfying other performance obligations.

Trade receivables include an allowance for estimated irrecoverable amounts from the supply of services of £45m (2020: £31m). This allowance has been made by reference to past default experience. Past default experience is adjusted for forward looking information where relevant. The group provides fully for receivables overdue by over six months. Average debtor days were 49 days (2020: 50 days).

The directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in sterling.

The group's credit risk is primarily attributable to its trade receivables. Around 98 per cent of the company's income is received from train operating companies and in the form of revenue grants from Government. Franchises are issued to train operating companies by the Department for Transport in England and Wales and Transport Scotland in Scotland. The group believes that amounts receivable from Government and the train operating companies represent a high level of credit quality. This is because in the extraordinary circumstance that a train operating company were to be unable to meet its obligations then provisions in the franchise agreements allow the Department for Transport to take over services at any time. Measures taken to change franchise contracts by both DfT and Transport Scotland during the global pandemic have allowed train operating companies to continue to settle amounts owed to Network Rail as they fall due. Before accepting any other new customer, the group uses an external credit scoring system to assess the potential customer's credit quality.

Included in the group's trade receivable balance are amounts totalling £51m (2020: £90m) which are past due at the reporting date for which the group has not provided as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The group does not hold collateral over these balances. The average age of these receivables is 22 days (2020: 32 days).

The following table shows the age of financial assets for the group which are past due and for which no specific provision has been raised:

Current assets: trade and other receivables	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Past due by 1 – 28 days	40	39	-	-
Past due by 29 – 56 days	9	18	-	-
Past due by 57 – 84 days	3	12	-	-
Past due by 85 – 180 days	19	27	-	-
	71	**96**	**-**	**-**

Trade receivables of £26m (2020: £21m) are overdue by six months or more and have been fully provided for.

18. Trade and other payables

Current liabilities: trade and other payables	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Trade payables	586	534	-	-
Collateral held from banking counterparties	105	120	-	-
Payments received on account	26	25	-	-
Other payables	431	495	-	-
Other interest accruals	241	282	-	-
Other accruals	934	910	-	-
Deferred income	1,278	1,271	-	-
Total	**3,601**	**3,637**	**-**	**-**

IFRS 15 uses the term 'contract liability' to describe what might more commonly be known as 'deferred income', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has not adopted the terminology used in IFRS 15 to describe such balances.

£19m of the property deferred income balance at the beginning of the year was recognised as revenue in the current year.

The average credit period taken for trade purchases is 26 days (2020: 36 days).

Before accepting new suppliers, and upon letting significant contracts, the group evaluates suppliers' creditworthiness using external credit scoring systems and other relevant data.

The directors consider that the carrying value of trade and other payables approximates to their fair value. All balances are ordinarily non-interest bearing and denominated in sterling.

Non-current liabilities: other payables	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Capital grants deferred income	430	471	-	-
Other payables	56	77	-	-
Total	**486**	**548**	**-**	**-**

As part of the acquisition of Railtrack PLC, Network Rail received a grant of £300m from the Strategic Rail Authority to fund the purchase. In line with Network Rail's accounting policy this revenue is deferred and amortised over the average remaining life of the railway network (as this represents the substantial part of the assets purchased), currently 40 years, on a straight-line basis.

19. Borrowings

The borrowings balance is split as follows:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Net borrowings by instrument:				
Cash and cash equivalents	522	430	-	-
Collateral placed with counterparties	369	534	-	-
Collateral received from counterparties	(105)	(120)	-	-
Bank loans	(522)	(514)	-	-
Lease liabilities	(386)	(411)	-	-
Bonds issued under the Debt Issuance Programme (less unamortised premium, discount and fees)	(23,874)	(24,686)	-	-
Borrowings issued by the Department for Transport*	(30,683)	(29,834)	-	-
	(54,679)	**(54,601)**	**-**	**-**
Movement in net borrowings:				
At the beginning of the year	(54,601)	(54,137)	-	-
Increase / (Decrease) in cash and cash equivalents	92	(20)	-	-
Proceeds from borrowings	(10,841)	(11,559)	-	-
Repayments of borrowings**	10,841	12,029	-	-
Capital accretion	(281)	(513)	-	-
Exchange differences	20	(19)	-	-
Movement in collateral placed with counterparties	(165)	(193)	-	-
Movement in collateral received from counterparties	15	(82)	-	-
Movement in lease liabilities (see Note 24)	25	(411)	-	-
Decrease/(increase) in DFT collateral facility**	150	275	-	-
Fair value and other movements	66	29	-	-
At the end of the year	**(54,679)**	**(54,601)**	**-**	**-**
Net borrowings are reconciled to the balance sheet as set out below:				
Cash and cash equivalents	522	430	-	-
Collateral placed with counterparties (included in trade and other receivables)	369	534	-	-
Collateral received from counterparties (included in trade and other payables)	(105)	(120)	-	-
Borrowings included in current liabilities	(8,157)	(10,781)	-	-
Borrowings included in non-current liabilities	(47,308)	(44,664)	-	-
	(54,679)	**(54,601)**	**-**	**-**

* As at 31 March 2021, a collateral facility of £260m (2020: £410m) was included within this balance.

** Included in repayment of borrowings in cash flow statement.

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
1.085 % sterling index linked bond due 2052	143	141	-	-
0 % sterling index linked bond due 2052	157	154	-	-
1.003 % sterling index linked bond due 2051	27	27	-	-
0.53 % sterling index linked bond due 2051	138	136	-	-
0.517 % sterling index linked bond due 2051	138	136	-	-
0 % sterling index linked bond due 2051	158	154	-	-
0.678 % sterling index linked bond due 2048	136	134	-	-
1.125 % sterling index linked bond due 2047	5,887	5,819	-	-
0 % sterling index linked bond due 2047	101	99	-	-
1.1335 % sterling index linked bond due 2045	55	55	-	-
1.5646 % sterling index linked bond due 2044	313	308	-	-
1.1565 % sterling index linked bond due 2043	62	61	-	-
1.1795 % sterling index linked bond due 2041	76	75	-	-
1.2219 % sterling index linked bond due 2040	307	302	-	-
1.2025 % sterling index linked bond due 2039	83	82	-	-
4.6535 % sterling bond due 2038	100	100	-	-
1.375 % sterling index linked bond due 2037	5,789	5,717	-	-
4.75 % sterling bond due 2035	1,235	1,234	-	-
1.6492 % sterling index linked bond due 2035	467	459	-	-
4.375 % sterling bond due 2030	872	872	-	-
1.75 % sterling index linked bond due 2027	5,599	5,548	-	-
4.615 % Norwegian krone bond due 2026*	49	47	-	-
4.57 % Norwegian krone bond due 2026*	14	13	-	-
1.9618 % sterling index linked bond due 2025	395	389	-	-
4.75 % sterling bond due 2024	745	743	-	-
3 % sterling bond due 2023	399	399	-	-
2.76 % Swiss franc bond due 2021	231	251	-	-
2.315 % Japanese yen bond due 2021*	66	77	-	-
2.28 % Japanese yen bond due 2021*	66	77	-	-
2.15 % Japanese yen bond due 2021*	66	77	-	-
4.625 % sterling bond due 2020	-	1,000	-	-
	23,874	**24,686**	**-**	**-**

* Bonds treated as fair value through profit and loss.

All other bonds are shown net of unamortised discount and fees.

Under IFRS 13, bonds are classified as Level 2.

Bank loans are analysed as follows:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Index-linked European Investment Bank due 2036 (£251m) and 2037 (£249m)	522	514	-	-
	522	**514**	**-**	**-**

At 31 March 2021 and 2020 the group had the following undrawn committed borrowing facilities at nominal value:

	2021 Drawn £m	2021 Undrawn £m	2021 Total £m	2020 Drawn £m	2020 Undrawn £m	2020 Total £m
Department for Transport loan facility	30,439	1,420	31,859	29,439	2,420	31,859
Department for Transport collateral facility	260	140	400	410	390	800
	30,699	**1,560**	**32,259**	**29,849**	**2,810**	**32,659**

Undrawn committed facilities expire as follows:

	2021 Group £m	2020 Group £m
Within one year	-	-
Within two to five years	1,420	2,420
After five years	140	390
	1,560	**2,810**

On 4 July 2014, the Secretary of State for Transport provided the group with a loan facility of £30,875m expiring on 31 March 2019. Following the asset divestment programme, the loan facility was reduced to £29,909m which had been fully drawn as at 31 March 2019. On 28 March 2019, a new facility was signed which became available for drawing on 1 April 2019 (the '2019 facility'). The 2019 facility has a drawdown limit of £32,329m. Following the CVL disposal, this facility was reduced to £31,859m. In addition, the Secretary of State for Transport has provided unlimited financial indemnity in respect of borrowings under the Debt Issuance Programme which expires in 2052.

20. Derivative financial instruments

	2021 Group		2020 Group	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Derivative financial instrument assets				
Cash flow hedges				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	109	128	138	128
Fair value hedges				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	-	-	-	-
Non-hedge accounted derivatives				
Cross-currency swaps to hedge debt issued under the Debt Issuance Programme	67	198	98	198
Interest rate swaps	211	9,140	245	10,670
Forward foreign exchange contracts	-	-	3	1
	387	**9,466**	**484**	**10,997**
Included in non-current assets	191	6,716	474	9,396
Included in current assets	196	2,750	10	1,601
	387	**9,466**	**484**	**10,997**
Derivative financial instrument liabilities				
Cash flow hedges				
Interest rate swaps	(6)	130	(11)	130
Forward starting interest rate swaps				
Non-hedge accounted derivatives				
Interest rate swaps to hedge debt issued under the Debt Issuance Programme	(640)	9,140	(883)	12,380
Forward foreign exchange contracts	(2)	4	(1)	22
	(648)	**9,274**	**(895)**	**12,532**
Included in current liabilities	(83)	2,614	(48)	3,189
Included in non-current liabilities	(565)	6,660	(847)	9,344
	(648)	**9,274**	**(895)**	**12,533**

See Note 25: Funding and financial risk management for further details on the risk management strategy. Notional amounts above reflect the contractual value relating to the principal instrument (e.g. bond) to which the derivative relates.

21. Provisions

	Restructuring £m	Legal £m	Commercial and other claims £m	Total £m
At 1 April 2020	**5**	**21**	**54**	**80**
Charge for the year	5	12	31	48
Utilised in the year	(5)	(3)	(6)	(14)
Release for the year	-	(7)	(12)	(19)
At 31 March 2021	**5**	**23**	**67**	**95**

The group has also provided against a number of claims arising from interpretations of legal contracts or past events for which settlement is expected to be achieved in the next year, but could be deferred to future years depending on the legal interpretation of rights and responsibilities under the contracts as well as commercial negotiation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. The nature of these claims means that there is some uncertainty with regard to the value that they will be settled at. If the outcomes of the claims are different to the assumptions underpinning the directors' best estimates then a further liability may arise.

Contingent liabilities

The group's lawyers have advised that detailed disclosure regarding the nature and amount of contingent liabilities, beyond that disclosed here, could be expected to prejudice the position of the group. The general nature of contingent liabilities are development indemnities and warranties.

22. Deferred tax

The following are the deferred tax liabilities and assets recognised by the group and movement thereon during the current and prior year.

Group	Accelerated tax depreciation £m	Unrealised Gain on Investment Property £m	Revaluation of railway network £m	Short-term timing differences including retirement benefit obligations £m	Derivatives £m	Tax losses £m	Total £m
At 31 March 2019	**2,528**	**-**	**596**	**(92)**	**(28)**	**-**	**3,004**
Charge/(credit) to income	157	3	-	(33)	6	1	134
Charge/(credit) to other comprehensive income	-	-	(50)	141	46	-	137
Impact of rate change on deferred tax asset (income)	299	-	-	(31)	(3)	-	265
Impact of rate change on deferred tax asset (equity)	-	-	70	20	(1)	-	89
Transfer between reserves	-	-	(12)	12	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	(1)	(1)
Derecognition of deferred tax asset (income)	-	(3)	-	-	-	-	(3)
Derecognition of deferred tax asset (equity)	-	-	-	-	(45)	-	(45)
At 31 March 2020	**2,984**	**-**	**604**	**17**	**(25)**	**-**	**3,580**
Charge/(credit) to income	287	(4)	(2)	(53)	-	114	342
Charge/(credit) to other comprehensive income	-	-	(344)	(118)	29	-	(433)
Transfer between reserves	-	-	(6)	6	-	-	-
Utilisation of losses previously derecognised	-	-	-	-	-	(77)	(77)
Utilisation of ACT	-	-	-	-	-	(37)	(37)
De-recognition of deferred tax asset (income)	-	4	-	-	-	-	4
De-recognition of deferred tax asset (equity)	-	-	-	-	(29)	-	(29)
At 31 March 2021	**3,271**	**-**	**252**	**(148)**	**(25)**	**-**	**3,350**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the gross deferred tax balances:

	2021 £m	2020 £m
Deferred tax liabilities	3,523	3,605
Deferred tax assets	(173)	(25)
	3,350	**3,580**

Under IAS 12 deferred tax assets can only be recognised where it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Note 10 includes further discussion around the recognition of deferred tax assets. The deferred tax asset on tax losses of £2,736m (2020 £3,142m) has therefore not been recognised. The deferred tax asset for surplus ACT of £36.9m (2020 £36.9m) was fully utilised in this financial year.

Additionally, whilst taxable income does not exceed allowable deductions in the year, Network Rail claims only the capital allowances sufficient to make the necessary claims for group relief and available tax credits.

23. Notes to the statement of cash flows

	2021 Group £m	2020 Group £m	2021 Group £m	2020 Company £m
Profit/(Loss) before tax	1,613	375	-	-
Adjustments for:				
Property revaluation movements and profits on disposal	5	(3)	-	-
Fair value gain on derivatives and debt	(176)	(213)	-	-
Net interest expense	1,741	2,163	-	-
Depreciation of the rail network and leases under IFRS 16	2,094	2,022	-	-
Amortisation of grants	(137)	(169)	-	-
Amortisation of intangible assets	1	1	-	-
Movement in retirement benefit obligations	164	188	-	-
Increase in provisions	15	16	-	-
Operating cash flows before movements in working capital	**5,320**	**4,380**	**-**	**-**
Increase in inventories	(24)	(36)	-	-
(Decrease)/Increase in receivables	60	(98)	-	-
Increase in payables	104	677	-	-
Cash generated from operations	**5,460**	**4,923**	**-**	**-**

Cash and cash equivalents

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank, collateral and commercial paper, all of which are on call with the exception of short-term deposits. There were £576m (excluding offsetting clearing accounts) of short-term deposits with the government banking scheme (“GBS”) held as at 31 March 2021 (2020: £524m).

24. Leases

Group as a lessee

Property lease payments largely represent rentals payable by the group for certain of its office properties. In addition rentals are paid for land adjacent to the railway required for maintenance and renewal activities. Non-property leases include the group's vehicles, on track machines and wagons that are leased

The movement in the period for the lease liability is reconciled as follows:

	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2019	248	162	410
New leases entered into in the period	39	64	103
Leases renewed in the period	-	-	-
Interest charged in the period	9	6	15
Payments in the period	(66)	(51)	(117)
Lease liability at 31 March 2020	**230**	**181**	**411**
New leases entered into in the period	23	57	80
Leases renewed in the period	-	-	-
Change in assumptions	(5)	(4)	(9)
Interest charged in the period	5	6	11
Payments in the period	(48)	(59)	(107)
Lease liability at 31 March 2021	**205**	**181**	**386**

The lease liabilities are split between the current and non-current liabilities as shown below:	2021 £m	2020 £m
Current lease liabilities	107	92
Non-current lease liabilities	279	319
Total lease liabilities	**386**	**411**

The movement in the period for the ROU assets is reconciled as follows:

	Property leases £m	Non property leases £m	Total £m
Balance recognised on transition at 1 April 2019	248	162	410
New leases entered into in the period	39	64	103
Leases renewed in the period	-	-	-
Depreciation charged in the period	(41)	(44)	(85)
Right of use asset at 31 March 2020	**246**	**182**	**428**
New leases entered into in the period	23	57	80
Change in assumptions	(19)	(6)	(25)
Depreciation charged in the period	(46)	(56)	(102)
Right of use asset at 31 March 2021	**204**	**177**	**381**

Expenses relating to short-term lease (included in net operating costs) were £2m. The total cash outflow for leases during the year was £109m.

The following table details the group's remaining contractual maturity for its financial liabilities. See note 25 for details of how liquidity risk is managed across the group.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Lease liabilities	113	91	131	114	**449**

Group as a lessor

Minimum lease payments receivable on leases where the group is lessor are as follows:

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	Total £m
Minimum lease payments receivable	426	342	685	2,027	**3,480**

25. Funding and financial risk management

Introduction

The group's funding requirement is met by the Department for Transport via a loan facility and grants. Previously, the group was almost entirely debt financed. Of the total £54.8bn borrowings, £24.4bn debt has been issued through the special purpose financing company Network Rail Infrastructure Finance PLC, which is not a member of the Network Rail Limited group, but is treated as a subsidiary for accounting purposes. This debt has been issued by Network Rail Infrastructure Finance PLC under the Debt Issuance Programme which is rated AA by Standard and Poor's, Aa3 (outlook stable) by Moody's and AA- (outlook negative) by Fitch. The Debt Issuance Programme is supported by a financial indemnity from the Secretary of State for Transport which expires in 2052. The remaining £30.4bn was issued to Network Rail Infrastructure Limited through the Department of Transport (refer to Reclassification of Network Rail below).

Debt has been issued in a number of currencies and a range of maturities which gives rise to interest rate, foreign currency and inflation risk. Financial risk management aims to mitigate these risks.

Reclassification of Network Rail

In December 2013, the Office for National Statistics announced the reclassification of Network Rail as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by guidance in the European System of National Accounts 2010 (ESA10).

As part of Network Rail's formal reclassification to the public sector, an arrangement was agreed whereby funding would be provided by the DfT in the form of a loan made directly to Network Rail Infrastructure Limited, to fund the continuing programme of long-term investment in the national rail network. Network Rail Infrastructure Finance PLC does not anticipate issuing further bonds in the foreseeable future and its debt service obligations would be met through repayments of the intercompany loan by Network Rail Infrastructure Limited.

All of the outstanding bonds under the Debt Issuance Programme, including nominal and index-linked benchmarks and private placements in all currencies, will continue to benefit from the direct and explicit guarantee from the UK Government under the Financial Indemnity Mechanism. In the unlikely event that the DfT withdraws or breaches its obligations on the loan facility to Network Rail the group may issue further bonds or commercial paper to meet funding requirements.

Summary table of financial assets and liabilities

The following table presents the carrying amounts and the fair values of the group's financial assets and liabilities at 31 March 2021 and 31 March 2020.

The fair values of the financial assets and liabilities are recorded at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values where balances were not already held at fair value (see Accounting policies in Note 2):

- Bank loans – based on market data at the balance sheet date and the net present value of discounted cash flows
- Bonds issued under the Debt Issuance Programme – based on market data at the balance sheet date. Where market data is not available valuations have been obtained from dealing banks.

For cash and cash equivalents, finance lease receivables, trade and other payables and trade and other receivables, fair value equates to carrying value.

Group	2021 Carrying value £m	2021 Fair value £m	2020 Carrying value £m	2020 Fair value £m (restated)
Financial assets				
Cash and cash equivalents	522	522	430	430
Other non-derivative financial assets				
Trade and other receivables (less prepayments and accrued income and other taxation and social security)	799	799	961	961
Collateral receivable	369	369	534	534
Derivatives				
Derivatives designated as cash flow hedging instruments	109	109	138	138
Other derivatives as fair value through profit and loss	278	278	346	346
Total financial assets	**2,077**	**2,077**	**2,409**	**2,409**
Financial liabilities				
Financial liabilities held at amortised cost				
Bank loans	(522)	(864)	(514)	(900)
Bonds issued under the Debt Issuance Programme	(23,613)	(40,310)	(24,395)	(40,860)
Borrowings issued by Department for Transport	(30,683)	(30,971)	(29,834)	(30,374)
Collateral payable	(105)	(105)	(120)	(120)
Trade and other payables at amortised cost (less deferred income)	(2,274)	(2,274)	(2,443)	(2,443)
Financial liabilities designated as fair value through profit and loss				
Bonds issued under the Debt Issuance Programme	(261)	(261)	(291)	(291)
Derivatives				
Derivatives designated as cash flow hedging instruments	(6)	(6)	(11)	(11)
Other derivatives as fair value through profit and loss	(642)	(642)	(884)	(884)
Total financial liabilities	**(58,106)**	**(75,433)**	**(58,492)**	**(75,883)**

Fair values disclosed for index-linked bonds as at 31 March 2020 are based on a refined analysis from the published position for comparability. As shown in the above table, the bonds issued under the Debt Issuance Programme have fair values significantly in excess of their carrying values. These differences are not reflected in the Balance Sheet since the majority of these instruments (See Note 19) were not designated at FVPL on initial recognition and hence are accounted for at amortised cost under IFRS 9. The size of the difference is driven by the overall decrease in market debt yield rates since the inception of these instruments; debt terms in a higher yield environment resulting in a settlement at par would now attract a premium, assuming no other changes to the instrument or wider environment.

Derivatives

The group (including the group's special purpose financing company, Network Rail Infrastructure Finance PLC) uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The group does not use derivative financial instruments for speculative purposes. Certain derivatives are designated as hedges, and those derivatives that are not hedge accounted are fair valued immediately through the income statement. The group has a comprehensive risk management process.

The board, through a treasury sub-committee (the treasury committee), has approved and monitors the risk management processes, including documented treasury policies, counterparty limits, controlling and reporting structures.

The use of derivative instruments can give rise to credit and market risk. Market risk is the possibility that future changes in foreign exchange rates and interest rates may make a derivative more or less valuable. Since the group uses derivatives for risk management, market risk relating to derivative instruments will principally be offset by changes in the valuation of the underlying assets, liabilities or transactions being hedged.

Credit risk

Network Rail manages its funds with banks that have high credit ratings; assigned by international credit-rating agencies.

The treasury committee authorises the policy for setting counterparty limits based on credit ratings. The group spreads its exposure over a number of counterparties and has strict policies on how much exposure can be assigned to each of the counterparties. Surplus liquidity is invested in the Government Banking Scheme which has low credit risk.

For debt designated as fair value through profit and loss (FVTPL) there has been no change in carrying value as a result of changes in the group's credit risk. The gain in the income statement arising from the remeasurement of FVTPL debt items of £30m (2020: loss of £4m) are all attributable to changes in market risk.

The credit risk with regard to all classes of derivative financial instruments entered into before 1 January 2013 is limited because Network Rail has arrangements in place which limit each bank to a threshold (based on credit ratings), which if breached requires the bank to post collateral in cash or eligible securities. The members of the banking group are required to post collateral on positive mark to market swaps above the threshold. In December 2012 the group entered into new collateral agreements in respect of derivative trades entered into after 1 January 2013. Under the terms of the new agreements Network Rail posts collateral on adverse net derivative positions with its counterparties. The new agreements do not contain a provision for thresholds; as such Network Rail or its counterparties are required to post collateral for the full fair value of net out of the money positions. At 31 March 2021 the fair value of collateral held was £105m (2020: £120m). The group is the beneficial owner of this collateral. The group is free to invest or otherwise utilise the collateral at its discretion, subject to acting within the authority sanctioned by the treasury committee. The balance of collateral posted by the group at 31 March 2021 was £369m (2020: £534m).

The group does not have any significant credit risk exposure to any single counterparty and has considered the creditworthiness of debtors. For further detail on the creditworthiness of customers and suppliers, see Notes 17 (Trade and other receivables) and 18 (Trade and other payables).

The group considers its maximum exposure to credit risk to be the sum of its financial assets, as set out in Note 17.

Foreign exchange risk

Network Rail is exposed to currency risks from its investing, financing and operating activities. Foreign exchange risk for all currencies is managed by the use of forward exchange contracts and currency swaps to limit the effects of movements in exchange rates on foreign currency denominated liabilities.

The group considers a ten percentage point increase in the value of any currency against sterling to be a reasonably possible change and this would not have a material impact on the group's net profit before tax or equity.

Interest rate and inflation risk

The group is exposed to changes in interest rates as funds are borrowed at both fixed and floating interest rates. The hedging strategy approved by the treasury committee defines the appropriate mix between fixed and floating borrowings. Cross-currency and interest rate swap contracts are used to manage the fixed/floating ratio.

Debt with a carrying value of £18,410m (2020: £23,320m) is arranged at or swapped into fixed interest rates and exposes the group to fair value interest rate risk. Other borrowings were arranged at or swapped into floating rates, thus exposing the group to cash flow interest rate risk. They have arranged or swapped other borrowings into floating rates (£198m), thus exposing the group to cash flow interest rate risk.

The group has certain debt issuances which are index-linked and so are exposed to movements in inflation rates. The group does not enter into any derivative arrangements to hedge its exposure to inflation in relation to its index-linked debt, but rather to mitigate the effects of inflation on the group's retail price index-linked revenue streams.

Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to interest rates and inflation for both derivative and non-derivative financial instruments at the balance sheet date. A one per cent increase or decrease represents management's assessment of the reasonably possible changes in average interest rates and inflation.

	Group 31 March 2021		Group 31 March 2020	
	Impact on the income statement £m	Impact on equity £m	Impact on the income statement £m	Impact on equity £m
1 % increase in the interest rate	213	3	344	3
1 % increase in the GBP RPI on index linked bonds	(186)	-	(185)	-

A one per cent decrease in the above rates would have an equal and opposite effect.

Interest rate sensitivities have been calculated by comparing the average rates of the derivative financial instruments to the market rate for similar instruments.

The impact of a change in GBP RPI has been calculated by applying a change of one per cent to the RPI at the balance sheet date to the carrying value of the index linked bonds.

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the board of directors. The policy manual ratified by the treasury committee includes an appropriate liquidity risk management framework covering the group's short, medium and long-term funding and liquidity management requirements. The Treasury funding is subject to regular internal audits. Treasury provides sufficient liquidity to meet the group's needs, while reducing financial risks and prudently maximising interest receivable and minimising credit risk on surplus cash.

The group manages liquidity risk by maintaining sufficient cash and facilities to cover at least one year's working capital requirement by continuously monitoring forecast and actual cash flows. Included in Note 19 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

The following table details the group's remaining contractual maturity for its financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay and, therefore, differs from both the carrying value and the fair value. The table includes both interest and principal cash flows.

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	**Total £m**
31 March 2021					
Non-derivative financial liabilities					
Bank loans and overdrafts	(6)	(6)	(18)	(591)	(621)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(150)	(150)	(1,505)	(3,068)	(4,873)
– Sterling denominated index-linked bonds	(275)	(279)	(1,288)	(27,811)	(29,653)
– Foreign currency denominated bonds	(441)	(3)	(8)	(57)	(509)
Loan from the Department for Transport	(7,834)	(3,123)	(20,642)	(508)	(32,107)
Trade and other payables	(1,363)	(56)	-	-	(1,419)
Derivative financial liabilities					
Net settled derivative contracts	(177)	(120)	(126)	(14)	(437)
Gross settled derivative contracts – receipts	712	29	88	29	858
Gross settled derivative contracts – payments	(1)	-	-	(1)	(2)
	(9,535)	**(3,708)**	**(23,499)**	**(32,021)**	**(68,763)**

Group	Within 1 year £m	1-2 years £m	2-5 years £m	5+ years £m	**Total £m**
31 March 2020					
Non-derivative financial liabilities					
Bank loans and overdrafts	-	-	(1)	(522)	(523)
Bonds issued under the Debt Issuance Programme					
– Sterling denominated bonds	(1,196)	(150)	(1,552)	(3,171)	(6,069)
– Sterling denominated index-linked bonds	(276)	(284)	(900)	(34,900)	(36,360)
– Foreign currency denominated bonds	(14)	(453)	(8)	(62)	(537)
Loan from the Department for Transport	(10,410)	(7,988)	(11,383)	(1,239)	(31,020)
Trade and other payables	(1,431)	(77)	-	-	(1,508)
Lease liabilities	-	-	-	-	-
Derivative financial liabilities					
Net settled derivative contracts	(189)	(113)	(149)	(34)	(485)
Gross settled derivative contracts – receipts	14	453	8	62	537
Gross settled derivative contracts – payments	(3)	(276)	(3)	(58)	(340)
	(13,505)	**(8,888)**	**(13,988)**	**(39,924)**	**(76,305)**

Offsetting financial assets and liabilities

Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

Group	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amount of financial assets presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral received £m	**Net amount £m**
31 March 2021						
Derivative financial assets	387	-	387	(283)	235	**339**
31 March 2020						
Derivative financial assets	484	-	484	(369)	439	**554**

Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements. The balances have not been presented on a net basis in the financial statements.

Group	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the balance sheet £m	Net amount of financial liabilities presented in the balance sheet £m	Related amounts not set off in the balance sheet: Financial instruments £m	Related amounts not set off in the balance sheet: Cash collateral paid £m	**Net amount £m**
31 March 2021						
Derivative financial liabilities	(648)	-	(648)	283	28	**(337)**
31 March 2020						
Derivative financial liabilities	(895)	-	(895)	369	(24)	**(550)**

Cash flow hedges

Contractual payments on derivatives designated as cash flow hedges impact the income statement and will all have matured by 2027.

Borrowings

Details of the group's undrawn committed facilities and types of debt instrument used can be found in Note 19.

Fair value measurements recognised in the balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m
Derivative financial assets	-	387	-	387
Assets	**-**	**387**	**-**	**387**
Derivative financial liabilities	-	(648)	-	(648)
Financial liabilities designated at fair value through profit and loss	-	(261)	-	(261)
Liabilities	**-**	**(909)**	**-**	**(909)**
Total	**-**	**(522)**	**-**	**(522)**

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	-	484	-	484
Assets	**-**	**484**	**-**	**484**
Derivative financial liabilities	-	(895)	-	(895)
Financial liabilities designated at fair value through profit and loss	-	(291)	-	(291)
Liabilities	**-**	**(1,186)**	**-**	**(1,186)**
Total	**-**	**(702)**	**-**	**(702)**

The fair value of level 2 derivatives is estimated by discounting the future contractual cash flows using appropriate yield curves based on quoted market rates as at the current financial year end.

A review of the categorisation of the assets and liabilities into the three levels is made at each reporting date. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements in the current or prior years.

26. Retirement benefit schemes

Defined contribution schemes

On 1 April 2004 the company introduced a defined contribution pension scheme, the Network Rail Defined Contribution Pension Scheme (NRDCPS). These schemes are offered to all new employees of Network Rail, except those who have the legal right to join the Railway Pension Scheme (RPS). Any employee who wishes to transfer from the Network Rail Section of the RPS to the NRDCPS is entitled to do so.

At 31 March 2021, the NRDCPS had 14,082 active members (2020: 14,185) and the average employer contribution rate in the year was 4 per cent (2020: 4.1 per cent).

The estimated amounts of contributions expected to be paid by the company to the schemes during the year ended 31 March 2022 are £21m.

Defined benefit schemes

The principal pension scheme in which the company participates is the Railway Pension Scheme (RPS), which was established by statutory instrument, commenced on 1 October 1994 and is a funded defined benefit arrangement. The assets and liabilities under the predecessor scheme, the British Rail Pension Scheme (BRPS), were transferred to the RPS on that date. The RPS is an industry-wide scheme for all eligible employees within the railway industry. There are different sections within it for different employers. The assets and liabilities of each section are identified separately from those of the other sections. The company has its own section, the Network Rail Shared Cost Section (the Network Rail Section). This scheme, the assets of which are held separately from the company, is contributory and provides pensions related to pay at retirement.

The assets transferred to the RPS from the BRPS on 1 October 1994 were apportioned among the various sections of the RPS in accordance with the methods and assumptions specified in The Railways Pensions (Transfer and Miscellaneous Provisions) Order 1994 (the 'Transfer Order') which effected the transfer. The amount credited to the Network Rail Section included a share of the surplus at that time.

Since 1 April 2004, new members can only join the Network Rail Section of the RPS after completing five years of service. Benefits for existing members and employees joining up to and including 31 March 2004 were not affected by the revised eligibility rules of the Network Rail Section. In addition, the company announced its decision to cap its contribution to British Railways Additional Superannuation Scheme (BRASS) matching at current levels for existing employees and to dispense with matching for new employees. The company will continue to match regular contributions but will not increase them in cash terms in the future.

On 1 November 2008 Network Rail launched a third pension scheme – the Career Average Revalued Earnings (CARE) scheme, which is available to all employees.

Qualified actuaries Willis Towers Watson have valued the schemes on an IAS 19 (revised) basis at 31 March 2021 and 31 March 2020.

The contributions required to fund the RPS and the CARE scheme are reassessed every three years, following completion of actuarial valuations (by the Scheme Actuaries). The last full actuarial valuation of both schemes was undertaken by the scheme actuary, Willis Towers Watson, as at 31st December 2019. The triennial valuation showed a technical funding surplus of £1,065m.

Under the terms of the Pensions Act 2004, the Trustee and each employer must agree the methods and assumptions used to calculate the 'Technical Provisions', i.e. assets required to meet the Section's liabilities. The assumptions agreed are typically weaker than those used for IAS 19 purposes in current market conditions, so the minimum funding requirement in itself requires no further adjustment to the IAS 19 obligations below. However, the regulatory regime may, depending on legal advice received at the appropriate time, mean that a future employer's accounting surplus would need to be restricted.

The RPS and CARE schemes are both shared cost in nature, so the cost of benefits being earned and the cost of funding any shortfall in the schemes are normally split in the proportion 60:40 between the company and the members. In practice the contributions are adjusted at each triennial valuation to reflect the funding position of the schemes at that time.

The estimated amounts of contributions expected to be paid by the company and members to the schemes during the year ended 31 March 2022 are £132m and £85m respectively. If a surplus or deficit arises, the provisions in the rules mean that the company and members benefit from or pay for this respectively in the proportion 60:40.

	2021 %	2020 %
Key assumptions used:		
Discount rate	2.1	2.2
Expected rate of price inflation and CARE benefit increases (RPI measure)	3.2	2.5
Future earnings increases*		
- after changes to benefits from 1 April 2016	3.2	2.5
Pension increases (CPI measure)	2.8	1.8

* Excluding promotional salary scale. Promotional salary scale increases apply only in respect of service after the date of promotion.

	2021		2020	
	Males	Females	Males	Females
Average life expectancy for mortality tables used to determine defined benefit obligations:				
– Member aged 65	21.1	23	21.1	22.7
– Member aged 45	22.7	24.9	22.8	24.6

For Network Rail Section of the RPS the discounted mean term of the defined benefit obligation is 21 years, for the CARE scheme it is 37 years.

Amounts recognised in income in respect of the company's pension arrangement are as follows:

	2021 £m	2020 £m
Current service cost – defined contribution (see note 6)	24	23
Current service cost – defined benefit (see note 6)	266	283
Interest cost	44	58
	334	**364**

The current service cost has been included in employee costs, the net interest scheme deficit has been included in finance costs.

Amounts recognised in the statement of comprehensive income in respect of the company's pension arrangement are as follows:

	2021 £m	2020 £m
Gain on defined benefit obligation due to experience	(48)	(33)
Loss / (gain) on defined benefit obligation due to assumption changes	1,566	(752)
Return on plan assets (greater) / less than discount rate	(897)	43
Actuarial loss / (gain) recognised in the statement of comprehensive income	**621**	**(742)**

The cumulative amount of actuarial losses recognised in other comprehensive income was £1,398m (2020: £777m). In the year the discount rate went down by 0.1 % and the RPI assumption increased by 0.7 %. These factors combined have had a significant impact on the defined benefit obligation leading to the £1,566m loss noted above arising from assumption changes. The other movements reduce that loss to £621m which is recorded in the statement of comprehensive income.

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit schemes is as follows:

	2021 £m	2020 £m
The defined benefit obligation is made up as follows:		
Active members	(7,701)	(5,915)
Deferred pensioner member	(1,752)	(1,358)
Retired members	(3,917)	(3,128)
Present value of defined benefit obligation	(13,370)	(10,401)
Fair value of scheme assets	8,537	6,951
Deficit in the scheme	**(4,833)**	**(3,450)**
Group's share (60%) of the scheme deficit recognised in the balance sheet	**(2,899)**	**(2,070)**

This amount is presented as a non-current liability in the balance sheet. Cumulative gains or losses are recognised in equity.

Movements in defined benefit plan assets and liabilities (including members' share):

	Asset* £m	Liabilities** £m	Deficit £m
At 1 April 2019	**6,912**	**(11,188)**	**(4,276)**
Current service cost including members' share	-	(494)	(494)
Interest on pension deficit	158	(255)	(97)
Section amendment (Past Service Costs)	-	-	-
Administration expenses	(13)	-	(13)
Return on plan assets greater than the discount rate	(73)	-	(73)
Actuarial gain arising from experience adjustments	-	57	57
Actuarial loss arising from demographic assumptions	-	351	351
Gain on DBO - financial assumption	-	902	902
Regular contributions by employer	118	-	118
Contributions by employees	75	-	75
Benefits paid	(226)	226	-
At 1 April 2020	**6,951**	**(10,401)**	**(3,450)**
Current service cost including members' share	-	(465)	(465)
Interest on pension deficit	152	(226)	(74)
Section amendment (Past Service Costs)	-	-	-
Administration expenses	(15)	-	(15)
Return on plan assets greater than the discount rate	1,495	-	1,495
Actuarial gain arising from experience adjustments	-	80	80
Actuarial loss arising from demographic assumptions	-	32	32
Gain on DBO - financial assumption	-	(2,642)	(2,642)
Regular contributions by employer	126	-	126
Contributions by employees	80	-	80
Benefits paid	(252)	252	-
At 31 March 2021	**8,537**	**(13,370)**	**(4,833)**

* Including CARE scheme assets at 31 March 2021 of £339m (2020: £257m)
** Including CARE scheme liabilities at 31 March 2021 of £909m (2020: £587m)
The actual return on scheme assets was £1,647m (2020: £85m).

Scheme assets

The asset values disclosed below reflect Network Rail's exposure to underlying asset classes through holdings of units of the pooled funds in which the underlying assets are held. Underlying assets are managed by the pension administrator, RPMI and the control over economic benefits for Network Rail established through the unitisation of those funds. The table below has been used to illustrate the underlying assets proportional to Network Rail unit holdings in various pooled funds, and their position in the fair value hierarchy of the underlying assets.

Level 1 and 2 assets include diversified Exchange Traded Funds valued at open trading prices; the Level 3 include property, private equity and non-exchange-traded Pooled Investment Vehicles equity. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) and therefore are inherently more subjective than Level 1 and Level 2 assets.

	2021				2020
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
RPS Scheme					
Pooled investment vehicles	-	39	-	39	55
Private equity and non-exchange-traded pooled investment vehicles	-	-	2,406	2,406	1,999
Cash and current assets	969	-	-	969	1,021
Equities	3,685	-	65	3,750	2,723
Fixed interest securities	143	95	14	252	257
Derivatives - Futures	7	-	-	7	27
Derivatives - FX contracts	-	-	-	-	(106)
Index linked securities	217	6	-	223	224
UK Property	-	-	552	552	494
Total Assets RPS Scheme	**5,021**	**140**	**3,037**	**8,198**	**6,694**

	2021	2020
CARE Scheme		
Growth assets	248	152
Government bonds	35	60
Non-Government bonds	31	26
Property	8	8
Other assets	17	11
Total assets CARE Scheme	**339**	**257**
Total scheme assets	**8,537**	**6,951**

As a result of the economic uncertainty following measures undertaken as a result of the global pandemic, the Private equity and non-exchange traded pooled investment vehicles have required additional activity to assess their value at 31 March 2021. If the valuation was 5% higher or lower this would decrease/ increase the retirement benefit obligations by £120m.

In 2019-20 the scheme assets included Level 3 investments of £1,999m private equity and non-exchange traded pooled investment vehicles, £42m in equities, £22m fixed interest and £494m in property. The total value of Level 3 investments accounted for 38% of the total scheme assets held.

The group is exposed to a number of risks relating to the scheme including assumptions not being borne out in practice. The most significant risks are as follows:

Asset volatility
There is a risk that a fall in asset values is not matched by corresponding reduction in the value places on the defined benefit obligation scheme (DBO). The scheme holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long term but gives exposure to volatility and risk in the short-term.

Change in bond yields
A decrease in corporate bond yields will increase the value placed on the scheme DBO, although this will be partially offset by an increase in the value of the scheme's corporate bond holdings.

Inflation risk
The majority of the scheme's DBO is linked to inflation where higher inflation will lead to higher value being placed on the DBO. Some of the scheme assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit. The CPI(H) assumption is derived from the RPI assumption. On 4 September 2019, the Government and UK Statistics Authority (UKSA) published correspondence relating to the future of RPI. A consultation on the proposed changes ran from March to August 2020 and a formal response to the consultation was published on 25 November 2020. Given that the UKSA have noted their intention to align RPI with CPIH from February 2030, the post-2030 market-implied RPI assumption should theoretically reflect market expectations for CPI(H). CPIH has historically been closely aligned with CPI, so it has been assumed there is a nil gap between RPI and CPI(H) from February 2030. This calculation assumes the market has not included any compensation or adjustment for the change from RPI to CPI(H) from 2030. The starting point for the RPI assumption is the yield rate curve reflecting the scheme's average duration of 22 years. The rate is then adjusted downwards to reflect the fact the fact that buyers of these instruments are prepared to pay a premium for inflation protection and as such the yield is not a true reflection of market expectations of inflation. This adjustment is consistent in 2021 and 2020. The difference between RPI and CPI(H) is 40bps (2020:70bps).

Life expectancy

An increase in life expectancy will lead to an increased value being placed on the scheme's DBO. Future mortality rates cannot be predicted with certainty. Management's view is that it is currently too early to establish the long term impact on healthcare and mortality of the global pandemic. The average life expectancy therefore does not include any adjustment in relation to the global pandemic.

Discount rate

The discount rate needs to be based upon yields on high quality corporate bonds at the balance sheet date. A range of bonds are included when calculating this rate. Further, extrapolation of bond yields is required where there is a lack of bonds at long duration. In the current year, the range of bonds included when calculating the discount rate has been widened, as a result of additional classification provided by Bloomberg, this year to provide a more representative population. If the prior year population of bonds had been used, the discount rate would have been 10bps lower. A discount rate of 10bps lower would have increased the scheme liabilities by around 2%.

Actuarial assumption sensitivity

The discount rate is set by reference to market conditions at the reporting date, and can vary significantly between periods.

The earnings increases are linked to inflation and so set by reference to market conditions at the reporting date.

The mortality assumptions used are set by considering the experience of the scheme's members, and by making an allowance for possible future improvements in longevity. Mortality assumptions are difficult to set accurately and forecasting rates of future mortality improvement is inevitably speculative.

Expected future benefit payments from the Network Rail Section, based on data from the 2019 formal valuation and the 31 March 2021 IAS19 assumptions are as follows:

	£m
Benefits expected to be paid within 12 months	236
Benefits expected to be paid between 2 to 3 years	474
Benefits expected to be paid between 4 to 6 years	814
Benefits expected to be paid between 7 to 10 years	1,288
Benefits expected to be paid between 11 to 15 years	1,885
Benefits expected to be paid in over 15 years	11,635

The following table shows the effect of changes in these assumptions upon the defined benefit obligation:

	2021 £m	2020 £m
Discount rate		
Change in defined benefit obligation at year end from a 25 basis points increase	(721)	(547)
Change in defined benefit obligation at year end from a 25 basis points decrease	780	590
Mortality		
Change in defined benefit obligation from a one year increase in longevity	534	322
Change in defined benefit obligation from a one year decrease in longevity	(534)	(322)
Earnings increase		
Change in defined benefit obligation at year end from a 25 basis points increase	217	152
Change in defined benefit obligation at year end from a 25 basis points decrease	(209)	(147)
Price inflation (CPI measure)*		
Change in defined benefit obligation at year end from a 50 (2020:25) basis point increase	1,082	555
Change in defined benefit obligation at year end from a 50 (2020:25) basis point decrease	(968)	(517)

* Including consistent increases to Retail Price Index, salary growth and Retail Price Index/ Consumer Price Index related pensions assumptions.

27. Related parties

The Department for Transport (DfT) and Transport Scotland (TS) are considered related parties of Network Rail. Network Rail received grant income of £6,162m from the DfT in the year ended 31 March 2021 (2020: £4,936m). Network Rail received grant income of £480m from TS for the year ended 31 March 2021 (2020: £323m). The total of this income is "Grant income" in Note 3. At 31 March 2021 the company held £30,683m of loans issued by DfT (2020: £29,834m).

The British Transport Police (BTP), with whom Network Rail has a Police Service Agreement is also a related party. Network Rail incurred £98m (2020: £92m) of costs relating to services provided by the BTP in the year ending 31 March 2021 and received £1m (2020: £1m) in property income from the BTP in the same period.

Network Rail is also a related party of High Speed 2 (HS2). At the end of the financial year Network Rail held £181m (2020: £201m) of capital work in progress relating to works on HS2 and had also received £193m (2020: £219m) of capital grants that was recorded against property, plant and equipment.

East West Rail (EWR) is also a related party of Network Rail. During the year ended 31 March 2021, Network Rail received income of £0.2m (2020:£0.3m) from EWR for the provision of feasibility studies and development activities services.

28. Post balance sheet events

The Williams-Shapps Plan for Rail Review 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.

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