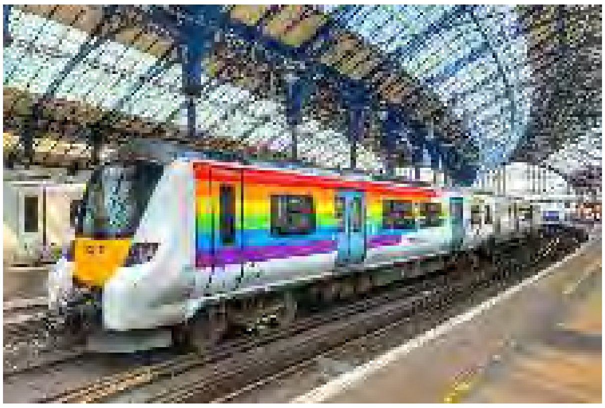
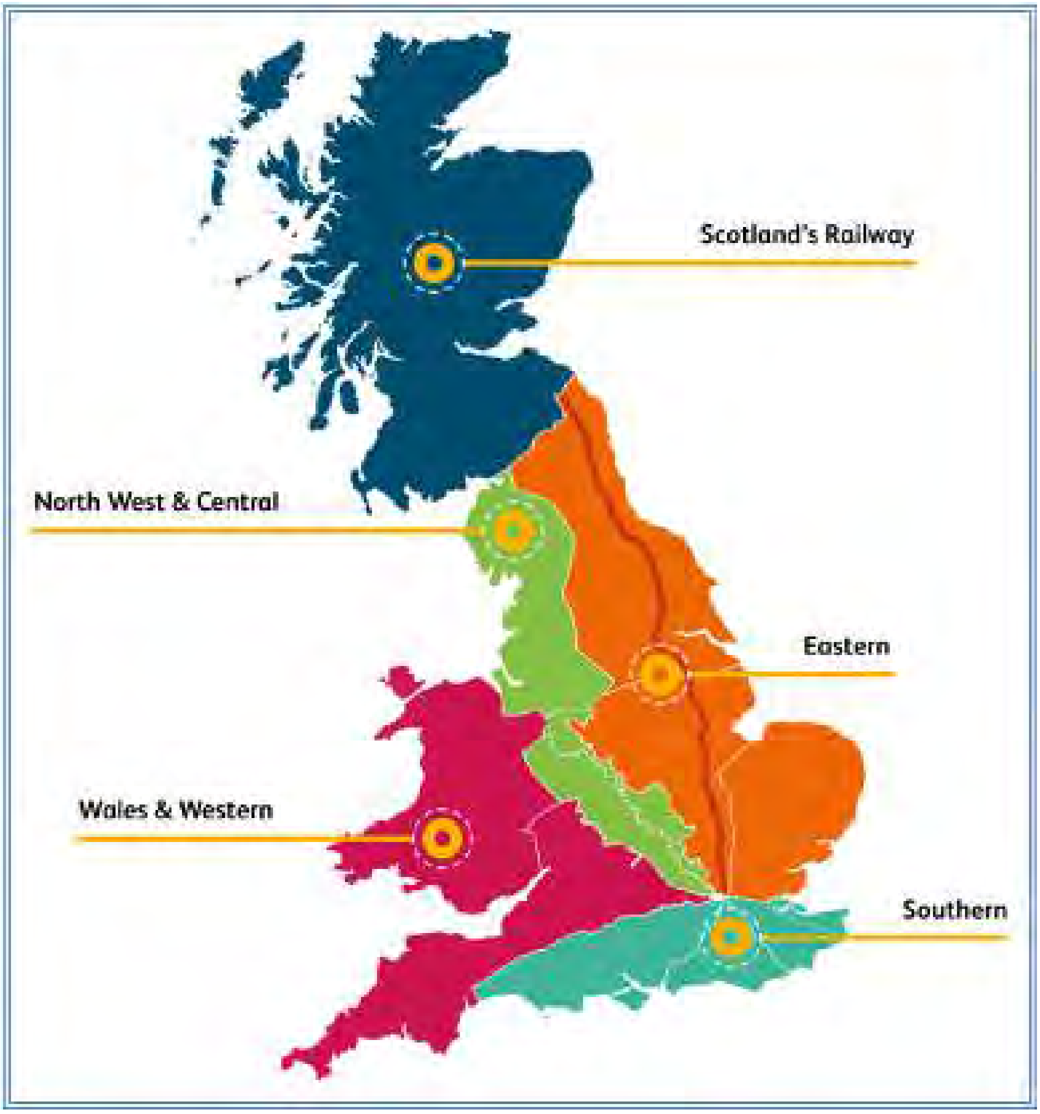


Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2023



Directors' Review

In £m 2022/23 prices unless stated otherwise

Introduction

The year ended 31 March 2023 was the penultimate financial year of Network Rail's five-year control period, covering the period from 1 April 2019 – 31 March 2024. This review will look back over the last year which has seen Network Rail impacted by a series of strikes by employees, severe weather events and changes in rail usage as we emerge from the pandemic.

Government continues to support our industry and our direct customers, the passenger and freight operating companies, have continued to pay amounts owed to Network Rail as they fall due. The resolution of the industrial dispute, in March 2023, was vital to help the industry regain the trust and confidence of our customers and in doing so improve revenues and reduce the railway's reliance on taxpayers' subsidies.

Network Rail remains focussed on reducing its ongoing cost base and is on course to meet our five-year target of £4bn planned efficiencies.

Our original £3.5bn five-year efficiency programme was increased to £4bn as we sought to improve the level of efficiencies we are achieving from our 2019 cost base. We are on course to achieve the revised £4bn target and have delivered a further £0.9bn this year through productivity improvements, securing more efficient track access to conduct work, and through leveraging modern technologies. This means that over £2.9bn of the £4bn target has been achieved in the first four years of this Control Period, in line with our plans. So, despite many challenges this Control Period, we continue to deliver our plans and meet our challenging targets.

Directors' Review continued

In £m 2022/23 prices unless stated otherwise

Summary income and expenditure for 2022/23

	Actual	Baseline	Variance	FPM
Income				
Grant income	7,463	7,478	(15)	0
Franchised track access charges	2,772	2,962	(190)	(86)
Other single till income	676	715	(39)	(52)
Total income	**10,911**	**11,155**	**(244)**	**(138)**
Opearting expenditure				
Network operations	716	686	(30)	(30)
Support costs	1,019	901	(118)	114
Traction electricity, industry costs and rates	979	1,145	166	(5)
Maintenance	2,089	1,780	(309)	(214)
Schedule 4	785	325	(460)	(461)
Schedule 8	132	65	(67)	(67)
	5,720	4,902	(818)	(663)
Capital expenditure				
Renewals	4,046	3,995	(51)	(146)
Enhancements	2,011	1,685	(326)	(27)
	6,057	5,680	(377)	(173)
Other expenditure				
Risk	0	708	708	0
Financing costs	4,135	2,230	(1,905)	0
Corporation tax	(50)	84	134	0
Total expenditure	**15,862**	**13,604**	**(2,258)**	**(836)**
Total FPM				**(974)**

Income

Grant income was broadly in line with the regulatory assumption this year as higher overall net expenditure on core activities largely offset by lower interest rates on debt issued by DfT. Amounts received from government is driven by other net expenditure variances, including additional schedule 4 costs this year. Consequently, grant income variances are outside of the scope of FPM.

Income from train operators was lower than the regulator assumed mainly due to lower electricity traction revenue which is offset by lower prices paid by Network Rail to acquire electricity for operators. These variances are excluded from the assessment of financial performance. Income is also lower as fewer trains were ran this year compared to pre-Covid service levels. In addition, industrial action resulted in cancellations of services. Network Rail receives money from operators for every train it runs so this contributes to the financial underperformance this year.

Directors' Review continued

In £m 2022/23 prices unless stated otherwise

Other single till income is lower than the regulatory baseline mainly due to lower property income. Whilst recovery from Covid has been encouraging, turnover from rental units at stations has yet to recover to pre-pandemic levels due to reduced station footfall.

Operating expenditure

Network Operations costs were higher than the regulatory baseline which included investment in performance improvement schemes to improve the passenger experience.

Support costs were higher than the regulatory baseline as more project expenditure was classified as operating expenditure rather than capital expenditure compared to the original regulatory expectation. As this doesn't impact the total expenditure of the organisation this is treated as neutral when assessing financial performance. The positive financial performance includes the benefits of workforce reform savings and other efficiencies.

Traction electricity, industry costs and rates are lower than the regulator expected due to lower market electricity prices. Whilst market electricity costs have risen this year, most of the operators had pre-bought expected requirements at lower rates. As these costs are passed on to operators to power trains, there is a corresponding reduction in income. Both the cost and income variances are excluded from the assessment of financial performance to the extent they offset. Business rate increases this year were less than expected which also contributed to the savings but has been treated as neutral when assessing financial performance.

Maintenance costs are higher than the regulatory baseline due to extra work on devegetation, compliance with safety standards and inflationary pressures on materials prices. These extra costs resulted in financial underperformance this year.

Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators.

For the first year this control period Schedule 8 missed the regulatory baseline. Train performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays.

Capital expenditure

We have invested £4.0bn on renewals this year. This included £1.1bn of track renewals, which delivered over 900km of new track and replaced more than 700 switches and crossings. In addition, £0.9bn was spent on signalling renewals, £0.7bn on structures, including around 87,000 square meters of bridges, £0.3bn on electrification assets, £0.4bn on buildings and 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. Net financial underperformance has been reported across the portfolio this year. This includes High Output track failures and reliability, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates along with industrial action.

Directors' Review continued

In £m 2022/23 prices unless stated otherwise

Enhancements that will increase the capacity of the network funded by DfT and TS have amounted to £2.0bn along with a further £0.4bn funded by other parties. The largest investment this year was on the TransPennine improvements. Other notable schemes included: East West Rail, HS2-related projects, East Coast Main Line improvements, including digital upgrades and Midland Main line improvements. All of these schemes will improve connectivity, reduce Great Britain's carbon footprint and drive economic development. For example, the TransPennine Route Upgrade will improve journey times, enhance the reliability of this busy part of the network and enable a reduction in greenhouse gas emissions in the region. Net financial underperformance has been recognised this year, most noticeable on Gatwick station connectivity which encountered extra design, scope and security costs as well as inflationary pressures.

Other expenditure

As part of the CP6 regulatory framework, some of Network Rail's renewals funding was separated and held as risk funding. This was to cover risks of higher than expected inflation, train performance, efficiency challenges not being fully recognised or other exogenous events. If this risk was not fully required for these items, it could be used to deliver additional asset management works. There is no expenditure reported in this line as the actual costs have been included in renewals or opex costs or to mitigate reduced income.

Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are higher than the regulatory baseline as higher RPI has led to increased expenses on our accreting debt. This has been partly offset by and lower interest rates on DfT-issued debt which are derived from market interest rates at the time of debt issuance and have been lower than the regulatory baseline assumed. As Network Rail have minimal influence on these costs they are outside the scope of financial performance.

Recent changes in tax law and Network Rail's financial forecasts have meant that corporation tax payments made earlier in the control period will now be rebated, and hence an income has been recognised this year in these accounts.

Regulatory Asset Base

As with most other regulated business, Network Rail has a 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. This year the RAB increased in value from £76.3bn to £84.4bn. In line with the regulatory financial framework, the RAB is inflated each year and given the relatively high inflation in 2022/23 this added £8.2bn to the RAB. Additions of £4.0bn were offset by amortisation of the same value. Reductions were then made for property disposals to arrive at the final valuation. Under the ORR CP6 Regulatory Accounting Guidelines, enhancements are not added to the RAB as the costs of enhancements are directly funded through capital grants paid by the organisation requesting the enhancement, largely DfT and TS.

Financing arrangements

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 only 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 for all of Network Rail's debt portfolio. We have not undertaken any new net borrowing during this control period and do not expect to do so in the next year. Instead, our activities are funded by grants from DfT, Transport Scotland, and revenue from train and freight operators.

Directors' Review continued

In £m 2022/23 prices unless stated otherwise

We have a loan facility with DfT for £32.3bn, which is used to refinance maturing government and external debt in the period 2019-2024. During the year ended 31 March 2023, we borrowed £2.7bn using the DfT loan facility to refinance maturing borrowing with DfT of £2.7bn. RPI-linked bonds increased in line with the RPI index. As a result, net debt rose from £55.4bn to £58.3bn.

Grant agreements with Department for Transport and Transport Scotland

Eight separate grants are in place between NRIL and DfT/TS. 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

Summary

Network Rail will continue delivering the efficiency plans that have helped us to shrink the cost base over the last four years by around £2.9bn. Our achievements so far mean that we are on target to meet our £4bn five-year stretch target. Given the huge challenges faced by the rail industry over the last four years this is a credible performance and shows evidence that a focus on delivering value-for-money is embedded in our way of doing business. This has put Network Rail on a firmer footing as we look forward to our next five-year control period (CP7).

Government has committed increased funding in CP7. Nevertheless we expect that five year period to be more challenging due to inflation and the need to keep investing to maintain asset condition.

Our strategic business plans are in place for CP7, showing how we set out to deliver the railway the country needs whilst achieving further efficiencies. In doing so making effective use of the funds committed by governments in Westminster and Holyrood.

The railway continues to show it can adapt in a world that has changed significantly since we embarked on this control period in 2019.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on the 17th November 2023.

Signed on behalf of the Board of Directors

Andrew Haines (Director) Jeremy Westlake (Director)

Statement of Directors' Responsibilities

The directors are responsible for preparing Regulatory financial statements in accordance with Condition 9 of the Network Licence as at 1 April 2019.

In preparing those Regulatory financial statements, the directors are required by Condition 9 to:

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2023 and (save as otherwise provided in Condition 9 or the CP6 Regulatory Accounting Guidelines December 2019) on a consistent basis in respect of each financial year;
- maintain all systems of control and other governance arrangements that ensure the information collected and reported to ORR is in all material respects accurate, complete and fairly presented and ensure that such governance arrangements are kept under regular review by the directors of the licence holder so that they remain effective for this purpose.
- include the confirmation required under Condition 9.5 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 9, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 9.5 and (where applicable) with Condition 9.9 and, if so requested by the ORR, evidence in support of that confirmation.

In addition, the directors are responsible for selecting suitable accounting policies where these are not directed by CP6 Regulatory Accounting Guidelines (December 2019) and for making judgements and estimates that are reasonable and prudent.

In accordance with the CP6 Regulatory Accounting Guidelines (December 2019) details should be provided in the Appendix with all reasonable necessary information required to reconcile items included in the Regulatory financial statements with similar items in the statutory financial statements. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion.

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

Opinion

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2023 which comprise the following statements:

- Statement 1: Summary Regulatory Financial Performance (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 2: Analysis of Income (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3: Analysis of Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.1: Analysis of Operations Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.2: Analysis of Maintenance Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.3: Analysis of Support Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.4: Analysis of Traction Electricity, Industry Costs and Rates (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.5: Analysis of Schedule 4 and Schedule 8 Income and Costs (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.6: Analysis of Renewals Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.7: Analysis of Enhancements Expenditure (figures pertaining to the columns labelled "Actual" only);
- Statement 3.9: Analysis of Staff Costs
- Statement 3.10: Analysis of Amounts Payable to Auditors and Independent Reporter (figures pertaining to the columns labelled "2022-23" only);
- Statement 4: Regulatory Financial Position;
- Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Asset Valuation;
- Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory Financial Statements and Statutory Accounts;
- Appendix C: Reconciliation of Regulatory Income to Statutory Turnover;
- Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt;
- Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense.

For the avoidance of doubt, my independent opinion does not extend to any figure pertaining to "financial out / (under) performance" or "anticipated final cost", nor any other statement or information contained in the Regulatory Accounts that is not explicitly listed above.

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

The financial reporting framework that has been applied in their preparation is Condition 9 of the Company's Network Licence ("the Regulatory Licence") and the Regulatory Accounting Guidelines ("RAGs") issued by the Director General of the Office of Rail and Road ("the Regulator"), and the accounting policies set out in the statement of accounting policies.

In my opinion the Regulatory Accounts, defined above, are:

- fairly presented in accordance with Condition 9 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2023 and its financial performance for the year then ended; and
- have been properly prepared in all material respects, in accordance with Condition 9 of the Regulatory Licence.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and having regard to the guidance contained in ICAEW Technical Release 02/16AAF (Revised) *Reporting to regulators on regulatory accounts.* My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Regulatory Accounts section of my report.

I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and I have fulfilled my 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 our opinion.

Emphasis of matter - basis of preparation

I draw attention to the fact that the Regulatory Accounts have been prepared in accordance with a special purpose framework, Condition 9 of the Regulatory Licence, Regulatory Accounting Guidelines ("the RAGs") issued by the Regulator; and the accounting policies set out in the statement of accounting policies. The nature, form and content of the Regulatory Accounts are determined by the Regulator. It is not appropriate for me to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, I make no such assessment.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of UK adopted international accounting standards. Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

My opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Regulatory Accounts defined above and my auditor's report thereon. My opinion on the Regulatory Accounts does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

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

In connection with my audit of the Regulatory Accounts, my responsibility is to read the Directors' Review contained within the Regulatory Accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. I have not performed any audit procedures nor provided any other assurance on the Directors' Review.

I have nothing to report in this regard.

Responsibilities of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Regulatory Accounts and for such internal control as the directors determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Regulatory Accounts

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 an auditor's 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.

A further description of my responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

I have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by the RAGs. Where the RAGs do not give specific guidance on the accounting policies to be followed, my audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company.

Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, I did not evaluate the overall adequacy of the presentation of the information, which would have been required if I were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Other matters

In arriving at my opinion, and in accordance with the Regulatory Licence (condition 9), I have considered the following matters, to report on any in respect of which I am not satisfied:

- whether appropriate accounting records have been kept by the Company and proper returns adequate for my audit have been received from operating locations not visited by me;

- whether the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts; and

- whether I have obtained all the information and explanations which I consider necessary for the purposes of my audit.

I have nothing to report arising from this duty.

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

Use of my report

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

My opinion on the Regulatory Accounts is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2023, which are prepared for a different purpose. My audit report in relation to the statutory financial statements of the Company (my "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My Statutory audit work was undertaken so that we might state to the Company's members those matters I am required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility for any other purpose or to any other person to whom my Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Sarah Che (Senior Statutory Auditor)

29th November 2023

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

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

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2023, which comprise:

- Statement 1: Summary Regulatory Financial Performance (FPM element only);
- Statement 2a: Analysis of Income (FPM element only);
- Statement 3: Analysis of Expenditure (FPM element only);
  - Statement 3.1: Analysis of Operations Expenditure (FPM element only);
  - Statement 3.2: Analysis of Maintenance Expenditure (FPM element only);
  - Statement 3.3: Analysis of Support Expenditure (FPM element only);
  - Statement 3.4: Analysis of Traction Electricity, Industry Costs and Rates (FPM element only);
  - Statement 3.5: Analysis of Schedule 4 and Schedule 8 Income and Costs (FPM element only);
  - Statement 3.6: Analysis of Renewals Expenditure (FPM element only);
  - Statement 3.7: Analysis of Enhancements Expenditure (FPM element only);
- Statement 3.8: Analysis of Renewals Unit Costs;

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 9 of the Network Licence. As stated in Clause 2.19 of the Regulatory Accounting Guidelines (RAGs) dated December 2019, the Regulator may use independent reporters to review some of the information provided by Network Rail in the regulatory financial statements. This will complement the work of the auditors.

Work completed – basis of opinion

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

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

Opinion

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

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

Yours faithfully.

November 2023

Mark Rudrum

Named Independent Reporter

Ove Arup & Partners Ltd

Accounting policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence as at 1 April 2019, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 9 of the Licence and the Statements must be prepared in accordance with detailed CP6 Regulatory Accounting Guidelines issued by ORR under Condition 9 in December 2019.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP6 Regulatory Accounting Guidelines ("RAGs") issued by ORR in December 2019. These are consistent with those detailed in the Network Rail Limited consolidated statutory financial statements for the year ended 31 March 2023 which were approved by the Directors on 13 July 2023 with the following notable exceptions:

Inflation

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

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life (currently 40 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in ORR's Periodic Review 2018 Financial Framework document.

IFRS16 Leases

IFRS 16 was introduced for entities preparing accounts in accordance with International Financial Reporting Standards adopted for use in the European Union for reporting periods beginning on or after 1 January 2019. This has not been adopted for these Regulatory financial statements to keep the accounting treatment consistent with the CP6 funding settlement, financial framework and regulatory baselines.

Debt

Debt is calculated by reference to the principal amount outstanding of any such financial indebtedness. No mark to market value is used to calculate its amount. Where financial indebtedness is denominated in a foreign currency, hedged by a derivative, the principal amount is calculated by reference to the sterling amount payable under the relevant derivative. This approach is consistent with the definition used in CP5 which ORR have confirmed is appropriate for CP6.

Pensions

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

Accounting policies continued

Turnover

For Regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts but does include the access charge supplement earned under this element of the performance regime. Also, income in the Regulatory financial statements includes profit on the disposal of properties after adjusting for the costs of the divestment programme. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 'Presentation of Financial Statements'.

Basis of disaggregation

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

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

Operational Regions

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

(a) Regionally-managed - income and expenditure which is managed by the local Region leadership team. This is assigned directly to each Region. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual Regions. All of these costs/ revenues are included in the Region income and expenditure reported in the Regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the Region-managed works delivery team. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issues by ORR December 2019.

(b) Centrally-managed. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issues by ORR December 2019. There are three sub-sections of Centrally-managed costs as follows:

   i. Directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual Regions can affect the company wide costs. This covers items where the Region is consuming a service from central functions and are charged in proportion to the amount of service they utilise. This would include items such as capital delivery of assets that are managed nationally, such as Telecoms. These costs can be attributed to the Region directly

Accounting policies continued

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

iii. Allocated by driver – income and expenditure incurred for the whole network or company. Minimal causal link between Region management teams' decisions and the level of costs incurred by Network Rail. This would include amounts paid to the ORR for regulatory licences, Board and governance costs. In these circumstances, costs have to be attributed to Regions using an appropriate driver. The driver represents a proxy for the cause of the cost in each Region. Network Rail has supplied supporting detailed documentation to the regulator (as well as the auditors and the reporters) setting out this methodology

Great Britain
Statement 1: Summary of regulatory financial performance
£m, Cash prices

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	7,463	7,478	(15)	-	7,210
Franchised track access charges	2,772	2,962	(190)	(86)	2,877
Other Single Till Income	676	715	(39)	(52)	729
Total Income	**10,911**	**11,155**	**(244)**	**(138)**	**10,816**
Operating expenditure					
Network operations	716	686	(30)	(30)	794
Support costs	1,019	901	(118)	114	1,072
Traction electricity, industry costs and rate	979	1,145	166	(5)	952
Maintenance	2,089	1,780	(309)	(214)	2,155
Schedule 4	785	325	(460)	(461)	359
Schedule 8	132	65	(67)	(67)	(209)
	5,720	**4,902**	**(818)**	**(663)**	**5,123**
Capital expenditure					
Renewals	4,046	3,995	(51)	(146)	4,370
Enhancements	2,011	1,685	(326)	(27)	1,978
	6,057	**5,680**	**(377)**	**(173)**	**6,348**
Risk expenditure					
Risk (Centrally-held)	-	219	219	-	-
Risk (Route-controlled)	-	250	250	-	-
Risk (Contingent asset management funding)	-	239	239	-	-
	-	**708**	**708**	**-**	**-**
Other expenditure					
Financing costs	4,135	2,230	(1,905)	-	3,081
Corporation tax	(50)	84	134	-	-
	4,085	**2,314**	**(1,771)**	**-**	**3,081**
Total expenditure	**15,862**	**13,604**	**(2,258)**	**(836)**	**14,552**
Total Financial Out/(under) performance				**(974)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	25,877	26,989	(1,112)	-
Franchised track access charges	10,412	11,221	(809)	(269)
Other Single Till Income	2,975	2,772	203	(321)
Total Income	**39,264**	**40,982**	**(1,718)**	**(590)**
Operating expenditure				
Network operations	2,804	2,679	(125)	(128)
Support costs	3,605	3,526	(79)	204
Traction electricity, industry costs and rate	3,482	3,956	474	(3)
Maintenance	7,665	6,960	(705)	(620)
Schedule 4	1,700	1,307	(393)	(417)
Schedule 8	(347)	263	610	610
	18,909	**18,691**	**(218)**	**(354)**
Capital expenditure				
Renewals	14,812	14,482	(330)	(735)
Enhancements	7,241	6,886	(355)	(186)
	22,053	**21,368**	**(685)**	**(921)**
Risk expenditure				
Risk (Centrally-held)	-	532	532	-
Risk (Route-controlled)	-	578	578	-
Risk (Contingent asset management funding)	-	621	621	-
	-	**1,731**	**1,731**	**-**
Other expenditure				
Financing costs	10,719	8,957	(1,762)	-
Corporation tax	2	181	179	-
	10,721	**9,138**	**(1,583)**	**-**
Total expenditure	**51,683**	**50,928**	**(755)**	**(1,275)**
Total Financial Out/(under) performance				**(1,865)**

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail’s net expenditure (Total income less Total expenditure) was around £2.5bn higher than the regulatory baseline for both this year and the control period to date. The largest component of the higher net expenditure experienced this year relates to higher interest costs, largely from higher inflation increasing the costs of accreting debt instruments. The control period to date includes the aforementioned higher financing costs, lower income and higher operating costs partly offset by performance regime savings and presence of risk funds.

(2) This statement also shows that Network Rail has recognised financial underperformance of £974m this year and £1,865m for the control period to date. This year has been significantly impacted by industrial action, across the performance regime, revenue and the cost of capital projects. Underperformance for the control period to date also includes the impact of Covid-19 which resulted in significantly lower property income, reduced franchised track access charges due to running fewer trains and higher maintenance costs being partially offset by improvements in the train performance regime.

(3) Income – Grant income is broadly in line with the regulatory baseline for the year with higher network grants being offset by lower internal financing and tax grants. Income is higher than the previous year due to extra expenditure this year, particularly within the performance regime (Schedule 4 & Schedule 8). Extra network grant income has been partly offset by reduced grants for interest owing to lower market rates on certain debt instruments. Grant income is lower in the control period to date mainly due to lower interest grants due to the aforementioned lower market interest rates compared to the regulatory expectation. Grants are higher this year largely due to the higher aforementioned performance regime costs. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year is lower than the regulatory baseline due to a combination of reduced services ran as a result of industrial action and lower traction electricity charges as market prices have not risen as quickly as the regulatory baseline assumed. So far this control period, less income has been received than the regulatory baseline expected. This is mainly due to lower variable track income, owing to the aforementioned industrial action this year, but also due to the reduced level of services ran during the Covid-19 pandemic period, and lower market prices for electricity this control period. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period to date is showing a significant outperformance due to the proceeds received from disposing of part of the network in Wales (considered neutral when assessing financial performance). Removing this one-off benefit, there is a significant shortfall driven by the impact that Covid-19 has had on station footfall and so property income. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is lower than the previous year, mainly due to higher property sales last year. By their nature property sales can be variable year by year. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs are slightly higher than the regulatory expectation this year and in the control period to date. This year extra investment was undertaken to improve services for passengers. The higher costs in the control period to date also reflect Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are higher than the regulatory baseline for similar reasons but also include investment in train performance improvement initiatives along with Covid-19 related expenditure. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year due to savings in Traction electricity and Business rates. Whilst market electricity prices have increased significantly this year, many of the operators had pre-purchased requirements, which limited the impact of market rises. Business rates have been lower due to government delays in re-setting these rates owing to Covid-19. Costs are lower in the control period to date mainly due to lower electricity costs, although this is offset by lower income received from operators (refer to Statement 2). Costs have increased compared to the previous year mainly due to higher market electricity prices. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline again this year. This includes extra work on devegetation, compliance with safety standards and inflationary pressures on materials prices. The higher costs in the control period to date also include extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are significantly higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. In the control period to date, there is a significant level of outperformance. Covid-19 resulted in fewer passengers and fewer services causing record levels of punctuality. This year's net outflow to operators is in contrast to the net inflow recognised last year, reflecting the impact of returning passengers on punctuality, impact of heat in the summer and a record level of Temporary Speed Restrictions due to higher levels of asset failure this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is slightly higher than the regulatory baseline this year adding to the additional spend in previous years of the control period. This includes extra investment funded by drawing down on the risk funds. At the start of the control period, some of the renewals activity was removed from the plan and included as a separate risk fund with the funding to be restored to renewals if risk did not materialise so the extra spend in renewals is expected. Financial underperformance has been recognised in renewals this control period including High Output track failures and reliability, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, industrial action and Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Renewals investment is discussed in more detail in Statement 3.6.

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

In £m cash prices unless stated

(13)Capital expenditure – Enhancement expenditure this year is higher than the regulatory baseline. This mainly due to an updated CP6 cumulative baseline as agreed with the DfT which incorporates the outcomes from the Spending Review 2021 (SR21) and subsequent decisions on what outputs and future projects they want delivered. Financial underperformance has been recognised this year, with various net variances across numerous projects. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS). Enhancement investment is set out in more detail in Statement 3.7.

(14)Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15)Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain
Statement 2: Analysis of income

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,317	1,320	(3)	-	1,376
Variable usage charge	219	298	(79)	(79)	239
Electrification asset usage charge	21	29	(8)	(8)	22
Capacity charge	-	-	-	-	-
Open access income	31	31	-	-	33
Managed stations long term charge	77	76	1	1	82
Franchised stations long term charge	186	187	(1)	(1)	196
Traction electricity charges	558	660	(102)	-	523
Schedule 4 access charge supplement	242	241	1	1	279
	2,651	**2,842**	**(191)**	**(86)**	**2,750**
Other single till income					
Freight income					
Freight variable usage charge	59	67	(8)	(8)	66
Freight other income	3	2	1	1	1
	62	**69**	**(7)**	**(7)**	**67**
Stations income					
Managed stations qualifying expenditure	101	106	(5)	(5)	104
Franchised stations lease income	60	56	4	4	63
	161	**162**	**(1)**	**(1)**	**167**
Facility and financing charges					
Facility charges	62	63	(1)	(1)	67
	62	**63**	**(1)**	**(1)**	**67**
Property income					
Property rental	206	267	(61)	(61)	184
Property sales	14	13	1	1	72
	220	**280**	**(60)**	**(60)**	**256**
Depots Income	**115**	**98**	**17**	**17**	**121**
Other income	**8**	**5**	**3**	**3**	**8**
Freight traction electricity charges	**18**	**9**	**9**	**-**	**11**
Total other single till income	**646**	**686**	**(40)**	**(49)**	**697**
Total Regionally-managed income	**3,297**	**3,528**	**(231)**	**(135)**	**3,447**
Centrally-managed income					
Network grant	6,211	5,796	415	-	5,755
Internal financing grant	643	945	(302)	-	684
External financing grant	551	550	1	-	659
BTP grant	108	103	5	-	112
Corporation tax grant	(50)	84	(134)	-	-
Infrastructure cost charges	55	54	1	-	55
Schedule 4 access charge supplement	66	66	-	-	72
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	7,584	**7,598**	**(14)**	**-**	**7,337**
Other single till income					
Property income					
Property rental	12	13	(1)	(1)	12
Property sales	18	16	2	(2)	20
	30	**29**	**1**	**(3)**	**32**
Total other single till income	**30**	**29**	**1**	**(3)**	**32**
Total centrally-managed income	**7,614**	**7,627**	**(13)**	**(3)**	**7,369**
Total income	**10,911**	**11,155**	**(244)**	**(138)**	**10,816**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	4,989	5,058	(69)	-
Variable usage charge	891	1,117	(226)	(226)
Electrification asset usage charge	82	103	(21)	(21)
Capacity charge	2	-	2	2
Open access income	115	119	(4)	(4)
Managed stations long term charge	296	296	-	-
Franchised stations long term charge	715	728	(13)	(13)
Traction electricity charges	1,030	1,289	(259)	-
Schedule 4 access charge supplement	984	991	(7)	(7)
	9,104	**9,701**	**(597)**	**(269)**
Other single till income				
Freight income				
Freight variable usage charge	223	232	(9)	(9)
Freight other income	6	5	1	1
	229	**237**	**(8)**	**(8)**
Stations income				
Managed stations qualifying expenditure	377	403	(26)	(26)
Franchised stations lease income	224	213	11	11
	601	**616**	**(15)**	**(15)**
Facility and financing charges				
Facility charges	244	248	(4)	(4)
	244	**248**	**(4)**	**(4)**
Property income				
Property rental	442	759	(317)	(317)
Property sales	95	58	37	4
	537	**817**	**(280)**	**(313)**
Depots Income	**418**	**375**	**43**	**43**
Other income	**29**	**19**	**10**	**10**
Freight traction electricity charges	**28**	**17**	**11**	**-**
Total other single till income	**2,086**	**2,329**	**(243)**	**(287)**
Total Regionally-managed income	**11,190**	**12,030**	**(840)**	**(556)**
Centrally-managed income				
Network grant	20,378	20,531	(153)	-
Internal financing grant	2,609	3,377	(768)	-
External financing grant	2,490	2,508	(18)	-
BTP grant	398	392	6	-
Corporation tax grant	2	181	(179)	-
Infrastructure cost charges	209	209	-	-
Schedule 4 access charge supplement	240	242	(2)	-
Traction electricity charges	859	1,069	(210)	-
Freight traction electricity charges	14	14	-	-
	27,199	**28,523**	**(1,324)**	**-**
Other single till income				
Property income				
Property rental	288	295	(7)	(6)
Property sales	587	134	453	(28)
	875	**429**	**446**	**(34)**
Total other single till income	**875**	**429**	**446**	**(34)**
Total centrally-managed income	**28,074**	**28,952**	**(878)**	**(34)**
Total income	**39,264**	**40,982**	**(1,718)**	**(590)**

Statement 2: Analysis of income, Great Britain

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is lower than the CP6 baseline this year mainly due to lower property rental income, less traction electricity income and lower variable track access. Income is higher than the previous year as additional grant income has offset apparent reductions elsewhere. The prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity, variable track access and property rental income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, due to a combination of the on-going impact of Covid recovery on service levels and property income, along with lower electricity traction costs, which is offset by corresponding lower costs. Regionally-managed income is lower than last year mainly due to planned reductions in Infrastructure cost charges and Schedule 4 access charge supplement. The previous year also benefitted from higher Property sales income which can be erratic given their nature. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 upon Property income and Variable track access charges.

(2) Infrastructure cost charges - fixed charge income was in line with the regulatory expectation this year. The control period to date continues to show a shortfall, mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income appears lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand. Income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021) and also due to the aforementioned industrial action this year.

(4) Electrical Asset Usage - Electric Asset Usage is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As noted above, fewer trains ran this year than the regulatory baseline expected meaning less EAU income was received leading to financial underperformance. The control period to date underperformance is due to reduced services this year along with the impact that Covid-19 had on service levels earlier in the control period. Income is broadly similar to the previous year.

(5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

(6) Managed stations long term charge – income this year is broadly in line with the regulatory baseline, however income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's November CPI (i.e. November 2021).

(7) Franchised stations long term charge – income this year is broadly in line with the regulatory baseline, and is also in line for the control period to date which is mostly due to lower inflation over the control period compared to the assumption in the regulatory baselines. Income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(8) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases this year, some had not pre-purchased future requirements and were instead subject to the sharp increases in market prices seen this year. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(9) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income was lower than the previous year. This is mainly due to planned reductions as reflected in the regulatory baseline for this year but also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

(10) Freight Income – income is slightly lower than the regulatory baseline this year, mainly due to the disruptive impact of industrial action. This has limited the number of services that Network Rail has been able to run to satisfy the demand from freight operators. The current year variance is also the driver of the majority of the adverse position in the control period to date.

(11) Managed stations qualifying expenditure – income is lower than the regulatory assumption this year, previous year, and the control period to date. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.

(12) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(13) Property sales – sales are broadly in line with the regulatory baseline this year. The current year is lower than the previous year reflecting the erratic nature of this income with sales only made when value can be unlocked. These higher disposals in 2021/22 have resulted in the favourable control period to date position compared to the regulatory baseline.

(14) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's inflation).

(15) Freight traction electricity charges – income is higher than the regulatory baseline this year. This is mainly due to the well-publicised higher market electricity prices this year. Freight operators have been disproportionately impacted compared to franchised train operating companies, as many of these had chosen to pre-purchase expected electricity requirements when market prices were lower. Network Rail passes on the cost to operators and so this extra income is offset by higher traction electricity costs as reported in Statement 3.4. This also accounts for the increase compared to the previous year.

Centrally-managed income

(1) Aggregate Centrally-managed income is broadly in line with the CP6 baseline this year as higher network grants due to difference in the timing of expenditure compared to the regulatory baseline have been partly offset by lower internal financing costs due to lower market interest rates. The extra activity this year is also driving the increase compared to the previous year and helps to reverse some of the lower than expected grants received earlier in the control period.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which reverses some of the reduced income in earlier years of the control period. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline. Income is higher than the previous year due to extra expenditure this year, particularly within the performance regime (Schedule 4 & Schedule 8).

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) British Transport Police grant – these grants are used to pay the costs of the core British Transport Police, included in Statement 3.4. Income is broadly in line with the regulatory baseline for the current year and the control period to date but lower than the prior year. This is reflected in the comparison of costs in Statement 3.4 and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(7) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(8) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

(9) Schedule 4 access charge supplement – income is lower than the previous year. This is mainly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).

(10) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(11)Property rental – income was broadly in line with the regulatory baseline and the previous year. Income for the control period to date is lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.

(12) Property sales – income in the control period to date is significantly higher than the regulatory baseline due to the disposal of part of the network in Wales as reported in 2019/20. This disposal was treated as neutral when assessing financial performance. Income in the current year includes the proceeds from disposal of part of the network in Eastern which is also treated as neutral for financial performance measure purposes.

Great Britain
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	693	663	(30)	(30)	766
Maintenance	1,966	1,719	(247)	(169)	2,097
Support costs	314	228	(86)	(86)	372
Traction electricity, industry costs and rates	937	1,108	171	(5)	913
Schedule 4	782	271	(511)	(512)	369
Schedule 8	123	54	(69)	(69)	(221)
	4,815	**4,043**	**(772)**	**(871)**	**4,296**
Capital expenditure					
Renewals	3,552	3,354	(198)	(144)	3,758
Enhancements	1,976	1,685	(291)	(27)	1,960
	5,528	**5,039**	**(489)**	**(171)**	**5,718**
Total Regionally-managed expenditure	**10,343**	**9,082**	**(1,261)**	**(1,042)**	**10,014**
Centrally-managed expenditure					
Operating expenditure					
Network operations	23	23	-	-	28
Maintenance	123	61	(62)	(45)	58
Support costs	705	673	(32)	200	700
Traction electricity, industry costs and rates	42	37	(5)	-	39
Schedule 4	3	54	51	51	(10)
Schedule 8	9	11	2	2	12
	905	**859**	**(46)**	**208**	**827**
Capital expenditure					
Renewals	494	641	147	(2)	612
Enhancements	35	-	(35)	-	18
	529	**641**	**112**	**(2)**	**630**
Risk Expenditure	**-**	**708**	**708**	**-**	**-**
Other					
Financing costs	4,135	2,230	(1,905)	-	3,081
Taxation	(50)	84	134	-	-
	4,085	**2,314**	**(1,771)**	**-**	**3,081**
Total centrally-managed expenditure	**5,519**	**4,522**	**(997)**	**206**	**4,538**
Total expenditure	**15,862**	**13,604**	**(2,258)**	**(836)**	**14,552**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	2,715	2,584	(131)	(131)
Maintenance	7,353	6,692	(661)	(572)
Support costs	1,231	895	(336)	(335)
Traction electricity, industry costs and rates	1,771	2,086	315	(11)
Schedule 4	1,705	1,098	(607)	(630)
Schedule 8	(327)	221	548	548
	14,448	**13,576**	**(872)**	**(1,131)**
Capital expenditure				
Renewals	12,811	12,276	(535)	(816)
Enhancements	6,841	6,873	32	(223)
	19,652	**19,149**	**(503)**	**(1,039)**
Total Regionally-managed expenditure	**34,100**	**32,725**	**(1,375)**	**(2,170)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	89	95	6	3
Maintenance	312	268	(44)	(48)
Support costs	2,374	2,631	257	539
Traction electricity, industry costs and rates	1,711	1,870	159	8
Schedule 4	(5)	209	214	213
Schedule 8	(20)	42	62	62
	4,461	**5,115**	**654**	**777**
Capital expenditure				
Renewals	2,001	2,206	205	81
Enhancements	400	13	(387)	37
	2,401	**2,219**	**(182)**	**118**
Risk Expenditure	**-**	**1,731**	**1,731**	**-**
Other				
Financing costs	10,719	8,957	(1,762)	-
Taxation	2	181	179	-
	10,721	**9,138**	**(1,583)**	**-**
Total centrally-managed expenditure	**17,583**	**18,203**	**620**	**895**
Total expenditure	**51,683**	**50,928**	**(755)**	**(1,275)**

Statement 3: Analysis of expenditure, Great Britain

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, expenses arising from industrial action which have more than offset the presence of risk funds. Expenditure has been higher than the control period to date with greater levels of capital investment, operating expenses and financing costs have more than offset the presence of risk funds. Costs are higher than the previous year mainly due to higher financing costs and performance regime expenses.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs in the control period to date are higher with additional capital investment and operating costs. Expenses are higher than the previous year due to the scale of industrial action this year and the compensation payments this has meant through Schedule 4. In addition, as passengers have returned to the network, the financial inflows from Schedule 8 witnessed earlier in the control period have now dissipated. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has more than offset the higher financing costs experienced this year. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Great Britain
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	291	284	(7)	(7)	323
Operations Management	90	74	(16)	(16)	96
Controllers	71	66	(5)	(5)	78
Electrical control room operators	23	19	(4)	(4)	24
	475	**443**	**(32)**	**(32)**	**521**
Non signaller expenditure					
Mobile operations managers	51	41	(10)	(10)	53
Managed stations	88	83	(5)	(5)	91
Performance	10	14	4	4	11
Other	69	82	13	13	90
Total Regionally-managed Operations expenditure	**693**	**663**	**(30)**	**(30)**	**766**
Centrally-managed Operations expenditure					
Network Services	23	23	-	-	28
Total centrally-managed Operations expenditure	**23**	**23**	**-**	**-**	**28**
Total operations expenditure	**716**	**686**	**(30)**	**(30)**	**794**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	1,147	1,119	(28)	(28)
Operations Management	325	288	(37)	(37)
Controllers	270	262	(8)	(8)
Electrical control room operators	82	75	(7)	(7)
	1,824	**1,744**	**(80)**	**(80)**
Non signaller expenditure				
Mobile operations managers	189	162	(27)	(27)
Managed stations	345	321	(24)	(24)
Performance	39	56	17	17
Other	318	301	(17)	(17)
Total Regionally-managed Operations expenditure	**2,715**	**2,584**	**(131)**	**(131)**
Centrally-managed Operations expenditure				
Network Services	89	95	6	3
Total centrally-managed Operations expenditure	**89**	**95**	**6**	**3**
Total operations expenditure	**2,804**	**2,679**	**(125)**	**(128)**

Statement 3.1: Analysis of operations expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were slightly higher than the regulatory expectation this year and in the control period to date. This year extra investment was undertaken to improve services for passengers. The higher costs in the control period to date also reflect Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Signaller and level crossing keepers – costs for the control period to date are higher than the regulatory baseline. This is mainly due to extra staff costs to ensure the railway kept moving throughout the Covid-19 pandemic. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Operations management – costs are higher than the regulatory expectation for both the current year, and the control period to date. The higher costs this year included additional resource to improve train performance for passengers as well as additional costs to comply with fatigue management safety standards. The higher costs in the control period to date also includes increased costs to ensure the railway kept moving during the Covid-19 pandemic.

(4) Controllers – costs are higher than the regulatory baseline this year but are in line with the previous year. Costs are higher in the control period to date, due to an increase in the staff premium costs as a result of high sickness levels during Covid-19 and the need to have sufficient cover for sick and self-isolating staff along with additional responsibilities arising from PFF reorganisation undertaken by the company and the associated additional outputs and capabilities.

Statement 3.1: Analysis of operations expenditure, Great Britain - continued

In £m cash prices unless stated

(5) Mobile operation managers – costs are higher than the regulatory target for this year continuing the trend of earlier years of the Control period. This was due to additional resource being invested in these teams to help improve performance. Following PPF, extra capabilities were included in the Region team in this area. The higher costs in the control period to date also include additional premium hour costs during the pandemic to provide extra resilience to resource rostering in light of staff absences.

(6) Managed stations – once again, costs are higher than the regulatory baseline. This includes staff at stations to offer a better service to the travelling public. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe.

(7) Performance – costs are lower than the regulatory baseline this year continuing the trend of earlier years of the control period. This is due to some of the performance initiatives being reported against other categories in this statement. The underspend in this category is offset by overspends in other headings. and the previous financial year. The savings in the control period to date are largely driven by the same factors.

(8) Other – costs are much lower than the regulatory target for this year, which helps offset some of the underperformance reported in earlier years of the control period. This is partly due to restructuring as a result of the PPF Programme. Responsibilities and activities that are included in the regulatory baseline in this category have been delivered by other categories in this statement. The savings in this category also help offset higher costs reported elsewhere in Operations. The higher costs for the control period to date is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6. This also accounts for the reduction in expenditure in this category compared to the previous year.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date. There is a saving compared to the previous year due to benefits from workforce reform including restrained pay, performance-related pay reductions and management modernisation reorganisation. The reduction is also due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level.

Great Britain
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	799	743	(56)	(17)	867
Signalling & Telecoms	312	289	(23)	(23)	351
Civils	266	223	(43)	(62)	255
Buildings	121	95	(26)	1	115
Electrical power and fixed plant	141	137	(4)	(4)	154
Other network operations	327	232	(95)	(64)	355
	1,966	**1,719**	**(247)**	**(169)**	**2,097**
Centrally-managed maintenance expenditure					
Telecoms	27	35	8	8	23
Route Services - Asset Information	31	35	4	4	39
STE Maintenance	3	4	1	1	4
Property	-	-	-	-	1
Route Services - Other	51	(13)	(64)	(50)	(8)
Other	11	-	(11)	(8)	(1)
	123	**61**	**(62)**	**(45)**	**58**
Total maintenance expenditure	**2,089**	**1,780**	**(309)**	**(214)**	**2,155**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	3,070	2,904	(166)	(127)
Signalling & Telecoms	1,227	1,127	(100)	(101)
Civils	889	858	(31)	(52)
Buildings	421	380	(41)	(1)
Electrical power and fixed plant	534	531	(3)	(3)
Other network operations	1,212	892	(320)	(288)
	7,353	**6,692**	**(661)**	**(572)**
Centrally-managed maintenance expenditure				
Telecoms	88	123	35	34
Route Services - Asset Information	131	134	3	(4)
STE Maintenance	18	20	2	2
Property	10	6	(4)	(4)
Route Services - Other	58	(15)	(73)	(77)
Other	7	-	(7)	1
	312	**268**	**(44)**	**(48)**
Total maintenance expenditure	**7,665**	**6,960**	**(705)**	**(620)**

Statement 3.2: Analysis of maintenance expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are slightly higher than the regulatory baseline this year with additional costs in both the Regionally-managed and Centrally-managed categories as described below. Costs for the control period to date are higher than the regulatory baseline reflecting extra costs this year but also expenses responding to the Covid-19 pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs is the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, the investment in performance schemes and extra costs to comply with track worker safety standards. Costs in the control period to date are higher than the regulatory baseline from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, Great Britain - continued

In £m cash prices unless stated

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the circa 20,000 miles of track that requires inspection and remediation this is perhaps unsurprising. This year costs are higher than the regulatory baseline which includes performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. The overspend in the control period to date is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Signalling & telecoms – this year, costs are higher than the regulatory baseline. The changing of organisational and staffing structures have predominantly increased the costs compared to the regulatory assumption for the year as have costs to develop additional skills to provide improved asset performance. Control period to date spend is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs surrounding our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain our operating license. In 2021/22, we reviewed and changed our contracting strategy leading to short term increases in cost but will ensure we deliver on meeting our examination requirements. Costs have also increased due to an increased vegetation workbank. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons. The overspend in the current year is partly mitigated by reduced reactive maintenance works. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Cost is higher than the previous year when delays in awarding framework contracts resulted in lower activity undertaken by external specialists.

Statement 3.2: Analysis of maintenance expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher reactive maintenance expenditure. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are higher than the regulatory baseline but this is almost all due to reactive maintenance activity variances.

(6) Electrical power and fixed plant – costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(7) Other network operations – costs are higher than the regulatory baseline this year. These extra costs include: inheritance of property through PPF, increases in costs were realised from DEAM compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year as well as the costs occurred in our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period. Costs are higher than the previous year due to a catch up of projects this year.

(3) Route Services – Asset information – expenditure in the year is lower than the regulatory assumption reflecting workforce reform savings, including performance related pay, management modernisation, lower pay awards and headcount restraint. The savings in the current year are the main driver for the control period to date saving. Costs are lower than previous year as the aforementioned workforce reform savings have been delivered in the current year.

Statement 3.2: Analysis of maintenance expenditure, Great Britain – continued

In £m cash prices unless stated

(4) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

(5) Other – costs in the current year include the reversal of some of the benefits reported last year (as shown by the comparatively lower value in the prior year equivalent). For the control period to date, the costs are slightly higher than the regulatory baseline which is mostly due to variances on reactive maintenance projects compared to the neutral regulatory baseline. In line with the guidance agreed with ORR for assessing financial performance, variances on these activities are not included. The marginal positive financial performance in the control period to date is mostly due to benefits earlier in the control period from notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories in the Regions).

Great Britain
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	26	23	(3)	(3)	33
Finance	22	16	(6)	(6)	24
Accommodation	87	70	(17)	(17)	95
Utilities	91	73	(18)	(18)	84
Other	88	46	(42)	(42)	136
	314	**228**	**(86)**	**(86)**	**372**
Centrally-managed Support costs					
Finance & Legal	35	59	24	24	53
Communications	16	22	6	6	21
Human Resources	21	34	13	13	34
System Operator	51	72	21	21	52
Property	10	18	8	8	13
Telecoms	72	56	(16)	(16)	88
Network Services	-	-	-	-	-
Safety Technical and Engineering	41	46	5	15	50
RS - IT and Business Services	122	127	5	5	141
RS - Asset Information	19	32	13	(4)	18
RS - Directorate	3	31	28	28	45
Other corporate functions	1	4	3	39	22
Insurance	(11)	55	66	66	35
OPEX/CAPEX Adjustment	214	77	(137)	-	151
Group costs	111	40	(71)	(5)	(23)
	705	**673**	**(32)**	**200**	**700**
Total support costs	**1,019**	**901**	**(118)**	**114**	**1,072**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	103	86	(17)	(16)
Finance	76	63	(13)	(13)
Accommodation	334	282	(52)	(51)
Utilities	313	288	(25)	(25)
Other	405	176	(229)	(230)
	1,231	**895**	**(336)**	**(335)**
Centrally-managed Support costs				
Finance & Legal	157	211	54	54
Communications	66	76	10	11
Human Resources	99	114	15	15
System Operator	170	242	72	72
Property	22	37	15	15
Telecoms	277	270	(7)	(12)
Network Services	40	64	24	24
Safety Technical and Engineering	159	172	13	23
RS - IT and Business Services	482	493	11	10
RS - Asset Information	62	113	51	34
RS - Directorate	99	100	1	-
Other corporate functions	59	73	14	14
Insurance	75	190	115	115
OPEX/CAPEX Adjustment	602	293	(309)	-
Group costs	5	183	178	164
	2,374	**2,631**	**257**	**539**
Total support costs	**3,605**	**3,526**	**(79)**	**204**

Statement 3.3: Analysis of support costs, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated to reflect organisational change.

Comments:

(1) Support costs are higher than the regulatory baseline this year and in the control period to date mainly due to additional costs in Regions as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year mainly due to the impact of the PPF re-organisation programme necessitating additional resources. The higher costs in the control period to date include Covid-19 related expenditure and delivery of performance initiatives. Costs are lower than the previous year as a result of lower Covid-19 expenditure and investment in performance schemes.

(2) Human resources – costs are higher in the control period to date, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. Savings have been made this year compared to last reflecting workforce reform benefits, including reduced headcount, pay restraint and performance-related pay reductions.

(3) Finance – costs are higher this year and in the control period to date, reflecting Network Rail's devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance resources to support this initiative. Savings have been made this year compared to last reflecting workforce reform benefits, including reduced headcount, pay restraint and performance-related pay reductions.

(4) Accommodation – costs are significantly higher than the baseline expectation this year primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements. Costs in the control period to date are higher for similar reasons along with expenditure to ensure Covid-19 compliance at Network Rail sites.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(5) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs for the control period to date are higher due to higher utility costs incurred this year. The rising market prices also accounts for the increase in costs compared to the prior year comparative.

(6) Other – costs were higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. This is primarily due to implementation of the PPF programme, which saw an increase in costs. Higher costs in the control period to date also reflect Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs. Costs are lower than the previous year which included significant investment in the aforementioned Project Alpha to improve train performance for passengers.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher workforce reform implementation costs have been partially offset by savings arising from workforce reform and from reduced insurance expenses. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex.

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Communications – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(6) Property – costs are lower than the regulatory baseline this year continuing the trend for the control period to date. The current year reflects savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The control period to date position also benefits from the favourable settlement of a long-running commercial dispute in the 2019/20. Costs are lower than the previous year reflecting the recognition of savings from workforce reform programmes.

(7) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are lower than the regulatory baseline mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and building on savings recognised in earlier years of the control period. Costs this year includes support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(10) Route Services – IT and Business Services – costs are lower the regulatory baseline this year mostly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The outperformance in the control period to date are largely due to the efficiencies this year but also from savings made earlier in the control period through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(12) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(13) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(15) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(16) Group – costs are higher than the regulatory baseline this year. As noted in the previous year Regulatory Financial Statements, some workforce reform savings were recognised in this category last year, these benefits have now been transferred to the rest of the business resulting in the recognition of an offsetting cost this year in Group. In addition, costs associated with modernisation programmes have been recognised in Group this year. Costs are lower than the regulatory baselines for the control period to date mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are higher than the previous year when a credit was recognised form the aforementioned workforce reform savings which have now been distributed to the other parts of the business.

Great Britain
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	573	669	96	-	529
Business rates	256	336	80	-	272
British transport police costs	108	103	(5)	(5)	112
	937	**1,108**	**171**	**(5)**	**913**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	25	20	(5)	-	22
RDG membership costs	3	3	-	-	3
RSSB costs	13	13	-	-	14
Reporters fees	1	-	(1)	-	-
Other industry costs	-	1	1	-	-
	42	**37**	**- 5**	**-**	**39**
Total traction electricity, industry costs and rates	**979**	**1,145**	**166**	**- 5**	**952**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	1,051	1,306	255	-
Business rates	502	573	71	-
British transport police costs	218	207	(11)	(11)
	1,771	**2,086**	**315**	**(11)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	865	1,083	218	3
Business rates	518	460	(58)	-
British transport police costs	180	185	5	5
ORR licence fee and railway safety levy	84	78	(6)	-
RDG membership costs	12	12	-	-
RSSB costs	48	49	1	-
Reporters fees	4	-	(4)	-
Other industry costs	-	3	3	-
	1,711	**1,870**	**159**	**8**
Total traction electricity, industry costs and rates	**3,482**	**3,956**	**474**	**- 3**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs are higher than last year as not all operators had pre-purchased electricity requirements and so were subject to rising market prices this year. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. This is also driving the control period to date benefit. Costs are lower than the previous year. Whilst in cash terms the costs have increased, the inflationary uplift factor was lower than the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Great Britain – continued

In £m cash prices unless stated

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period to date. Costs are lower than the previous year. Whilst in cash terms the costs have increased, they have not risen as fast as the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the control period to date expense and compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(7) Reporters' fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	782	271	(511)	(512)	369
Access charge supplement Income	(242)	(241)	1	1	(279)
Net (income)/cost	**540**	**30**	**(510)**	**(511)**	**90**
Schedule 8					
Performance element income	123	-	(123)	(123)	(258)
Performance element costs	-	54	54	54	37
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**123**	**54**	**(69)**	**(69)**	**(221)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	3	54	51	51	(10)
Access charge supplement Income	(66)	(66)	-	-	(72)
Net (income)/cost	**(63)**	**(12)**	**51**	**51**	**(82)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	9	11	2	2	12
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**9**	**11**	**2**	**2**	**12**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	785	325	(460)	(461)	359
Access charge supplement Income	(308)	(307)	1	1	(351)
Net (income)/cost	**477**	**18**	**(459)**	**(460)**	**8**
Schedule 8					
Performance element income	123	-	(123)	(123)	(258)
Performance element costs	9	65	56	56	49
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**132**	**65**	**(67)**	**(67)**	**(209)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,705	1,098	(607)	(630)
Access charge supplement Income	(984)	(991)	(7)	(7)
Net (income)/cost	**721**	**107**	**(614)**	**(637)**
Schedule 8				
Performance element income	(535)	-	535	535
Performance element costs	208	221	13	13
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(327)**	**221**	**548**	**548**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(5)	209	214	213
Access charge supplement Income	(240)	(242)	(2)	-
Net (income)/cost	**(245)**	**(33)**	**212**	**213**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(20)	42	62	62
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(20)**	**42**	**62**	**62**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,700	1,307	(393)	(417)
Access charge supplement Income	(1,224)	(1,233)	(9)	(7)
Net (income)/cost	**476**	**74**	**(402)**	**(424)**
Schedule 8				
Performance element income	(535)	-	535	535
Performance element costs	188	263	75	75
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(347)**	**263**	**610**	**610**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Total Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, which has negated some of the savings made earlier in the control period, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. In addition, the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period.

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. Financial underperformance was most evident in Scotland's Railway. The control period to date remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Income is lower than the previous year which is partly due to the relatively high inflation uplift applied to the previous year in line with the Regulatory Accounting Guidelines of 10.7% compared to the amount that the charges actually increased by (November 2021 CPI: 5.1%). Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain – continued

In £m cash prices unless stated

(3) Schedule 8 – this year's cost is similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Great Britain
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	273	262	(11)	-	318
PL Replace Partial	205	160	(45)	-	219
PL High Output	117	123	6	-	159
PL Refurbishment	61	65	4	-	71
PL Track Slab Track	13	9	(4)	-	16
Switches & Crossing - Replace	194	206	12	-	186
Switches & Crossing - Other	67	39	(28)	-	93
Off Track	111	85	(26)	-	112
Track Other	47	13	(34)	-	58
	1,088	**962**	**(126)**	**56**	**1,232**
Signalling					
Signalling Full	342	430	88	-	319
Signalling Partial	136	48	(88)	-	116
Signalling Refurb	129	244	115	-	156
Level crossings	105	107	2	-	73
Minor works	199	240	41	-	218
Other	1	7	6	-	(1)
	912	**1,076**	**164**	**(32)**	**881**
Civils					
Underbridges	224	280	56	-	236
Overbridges	70	60	(10)	-	61
Major structures	20	18	(2)	-	31
Tunnels	25	21	(4)	-	31
Minor works	91	71	(20)	-	87
Other	43	38	(5)	-	59
	473	**488**	**15**	**(29)**	**505**
Earthworks					
Earthworks - Embankments	87	69	(18)	-	126
Earthworks - Soil Cuttings	93	72	(21)	-	132
Earthworks - Rock Cuttings	38	20	(18)	-	58
Earthworks - Other	15	10	(5)	-	16
	233	**171**	**(62)**	**(50)**	**332**
Buildings					
Managed stations	52	60	8	-	48
Franchised stations	167	123	(44)	-	181
Light maint depots	21	14	(7)	-	21
Depot plant	7	5	(2)	-	3
Lineside buildings	20	6	(14)	-	21
MDU buildings	48	17	(31)	-	34
Other	2	-	(2)	-	3
	317	**225**	**(92)**	**(24)**	**311**
Electrical power and fixed plant					
AC distribution	19	32	13	-	13
Overhead Line	113	63	(50)	-	155
DC distribution	70	54	(16)	-	62
Conductor rail	23	15	(8)	-	30
Signalling Power Supplies	56	83	27	-	42
Other	20	34	14	-	14
Fixed plant	42	22	(20)	-	34
	343	**303**	**(40)**	**(37)**	**350**
Drainage					
Drainage (Track)	78	43	(35)	-	64
Drainage (Earthworks)	22	20	(2)	-	8
Drainage (Resilience)	6	8	2	-	5
	106	**71**	**(35)**	**(28)**	**77**
Property					
Property	80	58	(22)	-	70
	80	**58**	**(22)**	**-**	**70**
Total Regionally-managed renewals expenditure	**3,552**	**3,354**	**(198)**	**(144)**	**3,758**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	20	-	(20)	-	-
	20	**-**	**(20)**	**(21)**	**-**
Telecoms					
Operational communications	16	28	12	-	12
Network	19	16	(3)	-	14
SISS	43	43	-	-	17
Projects and other	4	3	(1)	-	6
Non-route capital expenditure	61	68	7	-	70
	143	**158**	**15**	**(14)**	**119**
Wheeled plant and machinery					
High output	12	17	5	-	31
Incident response	-	-	-	-	1
Infrastructure monitoring	3	22	19	-	3
Intervention	5	30	25	-	16
Materials delivery	12	25	13	-	11
On track plant	8	25	17	-	4
Seasonal	6	22	16	-	3
Other	24	45	21	-	38
	70	**186**	**116**	**-**	**107**
Route Services					
Business Improvement	45	1	(44)	-	59
IT Renewals	21	81	60	-	30
Asset Information	8	3	(5)	-	10
Other	6	17	11	-	14
	80	**102**	**22**	**-**	**113**
STE Renewals					
Intelligent infrastructure	67	58	(9)	-	93
Faster Isolations	51	56	5	-	56
Centrally Managed Signalling Costs	6	12	6	-	7
Research and development	47	60	13	-	43
Integrated Management System (Incl. BCR)	-	17	17	-	-
Other National SCADA Programmes	4	7	3	-	21
Small plant	10	9	(1)	-	10
Other	97	8	(89)	-	104
	282	**227**	**(55)**	**-**	**334**
Property					
Property	3	61	58	-	3
	3	**61**	**58**	**-**	**3**
Other renewals					
ETCS	10	17	7	-	33
Digital Railway	23	23	-	-	18
Civils & Drainage - Insurance Fund	6	29	23	37	2
Buildings - Insurance Fund	5	17	12	-	-
OPEX/CAPEX Adjustment	(214)	(77)	137	-	(146)
Phasing overlay	-	(136)	(136)	-	-
System Operator	30	28	(2)	-	24
Other renewals	36	6	(30)	(4)	5
	(104)	**(93)**	**11**	**33**	**(64)**
Total centrally-managed renewals expenditure	**494**	**641**	**147**	**(2)**	**612**
TOTAL RENEWALS EXPENDITURE	**4,046**	**3,995**	**(51)**	**(146)**	**4,370**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	1,104	1,000	(104)	-
PL Replace Partial	773	621	(152)	-
PL High Output	535	591	56	-
PL Refurbishment	240	251	11	-
PL Track Slab Track	40	18	(22)	-
Switches & Crossing - Replace	759	788	29	-
Switches & Crossing - Other	251	174	(77)	-
Off Track	381	269	(112)	-
Track Other	201	61	(140)	-
	4,284	**3,773**	**(511)**	**(225)**
Signalling				
Signalling Full	1,162	1,348	186	-
Signalling Partial	355	286	(69)	-
Signalling Refurb	421	693	272	-
Level crossings	289	400	111	-
Minor works	731	745	14	-
Other	4	22	18	-
	2,962	**3,494**	**532**	**(191)**
Civils				
Underbridges	797	970	173	-
Overbridges	194	223	29	-
Major structures	98	81	(17)	-
Tunnels	96	118	22	-
Minor works	318	245	(73)	-
Other	187	181	(6)	-
	1,690	**1,818**	**128**	**(60)**
Earthworks				
Earthworks - Embankments	457	280	(177)	-
Earthworks - Soil Cuttings	385	296	(89)	-
Earthworks - Rock Cuttings	168	90	(78)	-
Earthworks - Other	47	37	(10)	-
	1,057	**703**	**(354)**	**(122)**
Buildings				
Managed stations	174	226	52	-
Franchised stations	662	556	(106)	-
Light maint depots	74	55	(19)	-
Depot plant	25	29	4	-
Lineside buildings	83	30	(53)	-
MDU buildings	139	97	(42)	-
Other	7	-	(7)	-
	1,164	**993**	**(171)**	**(83)**
Electrical power and fixed plant				
AC distribution	53	91	38	-
Overhead Line	433	276	(157)	-
DC distribution	192	153	(39)	-
Conductor rail	82	53	(29)	-
Signalling Power Supplies	171	260	89	-
Other	74	114	40	-
Fixed plant	128	90	(38)	-
	1,133	**1,037**	**(96)**	**(79)**
Drainage				
Drainage (Track)	254	227	(27)	-
Drainage (Earthworks)	70	64	(6)	-
Drainage (Resilience)	21	28	7	-
	345	**319**	**(26)**	**(56)**
Property				
Property	176	139	(37)	-
	176	**139**	**(37)**	**-**
Total Regionally-managed renewals expenditure	**12,811**	**12,276**	**(535)**	**(816)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	38	-	(38)	-
	38	**-**	**(38)**	**(21)**
Telecoms				
Operational communications	45	89	44	-
Network	46	56	10	-
SISS	81	158	77	-
Projects and other	17	11	(6)	-
Non-route capital expenditure	292	283	(9)	-
	481	**597**	**116**	**(29)**
Wheeled plant and machinery				
High output	77	86	9	-
Incident response	1	-	(1)	-
Infrastructure monitoring	13	60	47	-
Intervention	41	97	56	-
Materials delivery	31	125	94	-
On track plant	18	55	37	-
Seasonal	17	53	36	-
Other	91	67	(24)	-
	289	**543**	**254**	**-**
Route Services				
Business Improvement	268	136	(132)	-
IT Renewals	128	255	127	-
Asset Information	27	30	3	-
Other	29	26	(3)	-
	452	**447**	**(5)**	**-**
STE Renewals				
Intelligent infrastructure	248	186	(62)	-
Faster Isolations	205	247	42	-
Centrally Managed Signalling Costs	22	40	18	-
Research and development	170	181	11	-
Integrated Management System (Incl. BCR)	-	52	52	-
Other National SCADA Programmes	70	69	(1)	-
Small plant	29	35	6	-
Other	282	55	(227)	-
	1,026	**865**	**(161)**	**-**
Property				
Property	38	135	97	-
	38	**135**	**97**	**-**
Other renewals				
ETCS	76	99	23	(3)
Digital Railway	44	(14)	(58)	-
Civils & Drainage - Insurance Fund	22	111	89	91
Buildings - Insurance Fund	5	66	61	-
OPEX/CAPEX Adjustment	(581)	(293)	288	-
Phasing overlay	-	(448)	(448)	-
System Operator	72	77	5	-
Other renewals	39	21	(18)	43
	(323)	**(381)**	**(58)**	**131**
Total centrally-managed renewals expenditure	**2,001**	**2,206**	**205**	**81**
TOTAL RENEWALS EXPENDITURE	**14,812**	**14,482**	**(330)**	**(735)**

Statement 3.6: Analysis of renewals expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year but lower than last year's outturn. This is partly due to the high inflation rate used to uplift the previous year's expenditure in line with the Regulatory Accounting Guidelines. Also, industrial action impacted delivery as a number of jobs had to be rescheduled and funds diverted away from core renewals programmes to cover the compensation costs payable to operators. Expenditure in the control period to date is higher than the regulatory expectation as contingent asset money (shown as risk funds in the regulatory baseline in Statement 1) has been incorporated into the core plans to deliver improvements to the railway infrastructure. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes this year include: financial underperformance within the track portfolio due to High Output, industrial action leading to project prolongation and higher inflationary challenges.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year which mostly reflects higher like-for-like project costs across the portfolio. The control period to date is higher than the regulator expected reflecting the draw down and utilisation of risk funds included in the regulatory baseline. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank so the additional spend in the control period to date is unsurprising. Financial underperformance has been recognised across almost all asset categories as discussed below. Costs are lower than the previous year. This is mostly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(2) Track – investment is higher than the regulatory baseline both this year and in the control period to date and negative financial performance has been reported for the control period to date. Across the portfolio, higher materials expenses have increased costs. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost in the current year due to industrial action and the Queen’s funeral whilst access from operators across the control period has also impacted ability to deliver planned workbanks. High output has spent less this control period which is due to a significantly reduced workbank. However, the reduction in volumes outweighs the saving in cost, which has contributed to adverse financial performance. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Financial outperformance reported this year includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Additional wheel timber investment and work at Carstairs in Scotland have driven the extra spend in Off track. Track other is higher due to underutilisation of teams delivering track portfolios which has been treated as financial underperformance. Costs are lower than the previous year. This includes the impact of the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(3) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects. The regulatory baseline included an ambitious increase in the level of Signalling to be delivered on the network which has not proved possible. Cash constraints at the end of CP5 limited development works that could be undertaken before the start of CP6. These delays have been exacerbated by Covid-19 which led to the workbank needing to be re prioritised, which impacted the ability to deliver on time. Financial underperformance has been recognised in the control period to date. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham Resignalling have all contributed to the underperformance. In addition, higher tender prices necessitating design changes, the added complexity of certain schemes, such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales, have hindered progress and resulted in project prolongation costs. Delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project and higher component market prices have also furthered underperformance. Earlier in the control period Covid-19 impacted the signalling portfolio, with prolongation in programmes along with the associated claims leading to projects incurring extra costs. Investment appears broadly in line with the previous year but spend in cash terms has increased noticeably. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly. Underlying reductions in the year include reduced delivery at major programmes including Birmingham New Street, Kings Cross remodelling and Paddington Train Detection programme as these projects move through their life cycle. These have been partly offset by a step up in activity on other schemes such as Port Talbot and Cambridge.

(4) Civils – overall expenditure was broadly in line with the regulatory baseline this year across the portfolio with savings on Underbridges offsetting additional investment elsewhere. For the control period to date, expenditure is lower than the regulatory expenditure with a broadly commensurate movement in weighted structures volumes delivered. The reduction in spend and activity has mainly been due to decisions made in the Regions on their asset management approach, prioritising investment elsewhere in the renewals portfolio, the such as Track and Earthworks. This has helped drive an increase in Minor works expenditure compares with decreases in the other categories, which have associated volumes as cheaper interventions are undertaken to enable appropriate safety and performance levels to be achieved. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates. This includes industrial action and the Queen's funeral in the current year along with Covid-19 impact earlier in the control period along with issues on access. These type of incidents and circumstances generally lead to project prolongation, abortive costs or fewer units to spread fixed costs over, all of which increase like-for-like project expenses. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Costs are lower than the previous year. This includes the impact of the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Earthworks – investment in the year, and control period to date, was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. The higher investment also included adverse weather impacts following storms, particularly in the Southern region, flooding during Christmas 2020 and February 2022 which have been reported in this category with reduced spend reported against the Centrally-managed Insurance categories. Continued environmental turbulence, more extreme weather and a better understanding of the assets has resulted in significantly more volumes being delivered so far this control period compared to the regulatory expectation. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates for the projects that have been delivered. This includes industrial action and the Queen's funeral in the current year along with Covid-19 impact earlier in the control period along with issues on access. These type of incidents and circumstances generally lead to project prolongation or abortive costs. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Expenditure is lower than the previous year with reductions in investment and volume delivery across almost all Regions as investment efforts were reprioritised locally. This is also partly because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high.

(6) Buildings – investment was higher than the regulatory baseline this year add to the control period to date position as regions have drawn down from the risk funds to deliver additional works with the overspend here being funded by the savings in risk fund expenditure as set out in Statement 1. So far this control period, additional investment in Franchised stations, Lineside buildings and maintenance depots has been partly offset by reduced work at Managed stations as activity has been reprioritised. The extra spend at Franchised stations includes fitting tactile paving to make the passenger experience more inclusive. Lineside buildings & maintenance depots were upgraded this control period including work at Holbeck and Leicester (both Eastern), Ebbw and Didcot (both Wales & Western), Stoke (North West & Central) and safety improvements at GTR depots (Southern). The control period to date position also included the impact of Covid, when regions used available resources and access to stations to increase investment. Financial underperformance was experienced this control period due to a number of factors including: scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, increased project complexity, discovery of asbestos which led to higher design and delivery costs, the impact of Covid-19 disruption and necessary changes to working practices, inaccurate asset designs and cancellation of jobs in light of funding constraints.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year, continuing the trend for the control period to date. Extra spend in the control period to date on overhead line works has been partly offset by lower than expected investment on signalling power supplies. The additional overhead line works this control period include a major refurbishment campaign in Anglia, investment in North West & Central's improvement performance plan (Project Alpha) and work in Scotland to help deliver Scottish government's environmental targets. Financial underperformance has been recognised so far this control period due to higher net like-for-like costs across the portfolio. This includes delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia along with volume reductions arising from constrained funding losing anticipated economies of scale on the programme and reduced access requirements during Christmas in Stratford. In addition late changes in scope, higher than anticipated supply chain prices and retendering of jobs due to unacceptable performance from contractors all resulted in higher costs. Covid-19 disruption, sickness and social distancing measures also increased average unit rates. Expenditure is lower than the previous year, which included significant investment in North West & Central's improvement performance plan (Project Alpha). This is also partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high.

(8) Drainage – expenditure is higher than the regulatory baseline this year which has resulted in an overspend recognised in the control period to date. The extra costs are mainly due to the financial underperformance recognised in the control period so far with many of the issues in the Southern region. A high level of emergency works in response to Stonehaven tragedy, inclement weather or deteriorated asset condition were required, with these reactive projects incurring a higher level of average cost. Few of these incidents qualified as insurable events and so the adverse financial performance recognised in the regions is partly offset by the outperformance recognised in centrally-managed costs. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on, difficulty obtaining access to worksites and contractor performance. The control period to date position also reports underperformance additionally resulting from Covid-19 and extra work required to combat inclement weather. Costs are higher than the previous year as activity ramps up in this area to improve asset condition in light of more volatile environmental factors.

(9) Property – expenditure is slightly higher than the regulatory assumption this year continuing the trend of earlier years of the control period. Following devolution of responsibility to the Regions, further opportunities have been identified within the portfolio for investment. This extra spend is more than offset by savings in the Centrally-managed property category. Significant projects this year included works at Waterloo and Euston to help generate additional retail venue in the future.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery and property being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to higher spend being transferred to OPEX this year as well as the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly.

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

(3) Telecoms – investment is lower than the regulatory baseline in the year and the control period to date, although activity has ramped up this year. Slippage on operational communications and SISS are the primary reasons for the lower spend this control period. As noted in the previous year's Regulatory Financial Statements, significant investment in CIS CCTV was expected this year and contributes to the increase in spend compared to the previous year. Regional decisions have been made to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Further step ups in investment are expected next year across the Telecoms estate. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

a. High output – investment was lower than the regulatory baseline this year which added to the overall underspend position in the control period to date as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. Spend is noticeably lower than the prior year comparative which included significant investment in renewing the high output ballast cleaner system fleet.

b. Infrastructure monitoring – costs are lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7. Costs are noticeably lower than the previous year which included investment in replacing track plain line stoneblower machines and rail milling train purchase.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date. The primary cause of the underspend for the control period to date is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year, expenditure was, once again, lower than the regulatory baseline, continuing the trend of the control period so far. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend of the control period to date. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline this year and in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories. The control period to date investment is higher than the regulatory baseline expected. Spend is lower than the previous year which included investment in fleet support plant where additional facilities renewals have been identified.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year which is partly due to the high inflation rate applied to the prior year comparative in line with Regulatory Accounting Guidelines and partly due to more of the programme outputs having been delivered by this point of the control period. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are lower than the regulatory baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but broadly in line with last year's outturn. This reflects the lower overall Signalling costs this year compared to expectation. The control period to date also shows a similar relationship to overall Signalling costs.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. The lower spend in the current year means the control period to date is now also lower then than the regulatory target. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

f. Other national SCADA programmes – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

g. Small Plant – investment is broadly in line with the regulatory baseline this year but lower in the control period to date. To help with Network Rail's move to a more devolved structure, management of this fund was passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

(7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage. In addition, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. The lower spend in the control period to date is due to the same factors.

(8) Other – investment is lower than the regulatory baseline in the current year but higher in the control period to date, mainly due to the impact of the Phasing delay. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as the programme has been revaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area. Costs are lower than the previous year which included investment in GPRS integration projects.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. System Operator – expenditure this year and the control period to date is broadly in line with the regulatory baseline. Costs are higher than the previous year due to differences in the phasing delivery assumed in the regulatory baseline compared to the actual profile of activity.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

h. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

Great Britain
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	10	1	8	165	168	8
Great Western Electrification	10	(17)	(2)	252	251	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	5	6	-	74	75	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	128	99	-	679	683	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	13	-
Trans Pennine Route Upgrade	604	604	3	1,490	1,488	19
Hope Valley Capacity	57	60	(1)	75	84	(1)
Cambridge South Station Dvpt 2	15	15	-	30	30	-
Critical Stations Improvement Fund	15	9	1	30	43	1
Gatwick Station	59	56	(20)	166	168	(21)
East West Rail Phase 2	181	155	-	741	755	-
Oxford Corridor Capacity Phase 2	28	22	-	52	51	-
GWEP Distribution Network Operators clearance work	(12)	-	-	(6)	(7)	-
East Coast Main Line Enhancements Programme	81	64	-	559	578	(29)
Manchester Improvements	26	10	(1)	55	70	-
Reading Independent Feeder (Power Supply)	19	13	1	48	47	(3)
Bristol East Junction	3	(26)	3	92	93	26
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	49	40	(7)	134	132	(10)
St Albans Station Capacity	3	-	-	7	6	-
London Euston (in support of High Speed Rail Group scheme)	17	27	1	49	50	-
SFN-Freight Forecasts project	(7)	(4)	(2)	23	23	2
Access for All	66	62	-	147	195	-
Thameslink Resilience Programme	(2)	1	2	21	24	3
Midlands Hub - Continued Design and Early Development	7	6	-	11	12	-
Western Rail Access to Heathrow	-	-	(1)	15	16	-
Crossrail	8	23	(7)	194	197	(146)
Integrated Crewe Hub - HS2	-	-	(2)	6	6	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Dr Days to Filton Abbey Wood Capacity	(1)	-	-	9	10	-
Portfolio Contingency (including T-12)	-	-	-	10	13	37
Depots & Stabling Fund	1	5	-	31	35	-
Northern Hub	(1)	(5)	(5)	48	49	-
Thames Valley EMU Capability	-	-	-	10	11	-
West Coast PSU	1	(13)	(2)	8	6	-
IEP Western Capability	-	1	-	17	20	-
West of England Plat Length	-	-	-	4	4	-
Feltham	-	1	-	9	10	-
High Speed 2	(7)	-	-	-	-	-
Birmingham New Street Gateway	(12)	(6)	3	10	13	(11)
Access to Assets	2	(1)	-	11	13	-
Restoring Your Railway	50	55	(1)	102	105	(1)
University Station	-	1	-	12	12	-
Energy Coast Rail Upgrade Project	-	1	(3)	6	6	-
GWML W10-W12 Gauge Enhancement	-	1	-	11	11	-
NWEP Phase 7 Lostock - Wigan	12	14	-	18	19	-
Crumlin River Bridge	-	1	-	4	5	1
W009 West of England DMU Capability	-	(2)	-	6	5	-
Anglia Traction PSU	1	-	1	9	4	-
EC Digital	201	221	-	307	307	-
Ely Area Capacity Enh	-	-	-	10	12	-
Ashford to Ramsgate	1	(5)	-	3	3	-
Clapham Junction Short-term	5	3	-	7	8	-
Darlington Station Improvements	5	5	-	8	14	-
Denmark Hill Congestion Relief	-	(1)	-	3	7	-
Tactile Paving Installation	19	13	-	25	23	-
New Stations Fund	1	(2)	-	3	14	-
River Irwell Fl Resil	-	(1)	-	3	5	-

W Mid New Stations	39	47	-	39	47	-
LNWS623 Bushey PSU	10	10	-	10	10	-
IRP Portfolio	25	32	-	25	32	-
Other	75	(10)	8	198	48	(1)
Total	**1,797**	**1,592**	**(23)**	**6,160**	**6,194**	**(184)**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	(3)	5	56	53	(1)
Aberdeen to Inverness	-	(2)	-	70	70	4
Kintore Station	-	(2)	-	14	14	(1)
Rolling Programme of Electrification	-	(2)	(5)	15	14	(5)
East Kilbride Barrhead	5	2	-	27	27	-
New Down Platform Dunbar	-	(1)	-	7	8	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	1	(5)	-	5	5	-
Cadder HST Depot	1	(1)	(1)	33	33	(3)
Hairmyres Land Purchase	-	-	-	14	14	-
Feeder St/Power Mod Ele	35	36	-	81	90	-
Edinburgh Waverley Western Approaches	-	(9)	-	6	5	-
Reston Station	1	-	-	17	20	-
North Hanover Street Development	-	(7)	-	5	6	-
West of Fife Enhancements	-	-	-	5	6	-
A9 Interface- Lynebeg Bridge	1	(4)	-	10	9	1
Far North Line Route Enhanceme	3	(1)	-	13	13	-
East Linton Station	8	6	(1)	19	15	(1)
Busby Jn to Barrhead Ele	23	11	-	38	37	-
Dalcross New Station	29	22	(1)	41	41	(1)
Levenmouth	35	33	-	47	47	-
GLAB Currie Feeder St	7	4	-	16	16	-
Cadder Buildings	-	4	-	6	8	(1)
Fife Decarbonisation	9	3	-	15	16	-
Millerhill Interventions	3	(2)	-	4	4	-
Barrhead Kilmarnock Ele	-	(7)	-	-	1	-
Aberdeen Cent Belt Elec	18	18	-	24	24	-
Portobello Junction	7	10	-	10	10	-
Aberdeen Cen Journey	2	7	-	6	7	-
Other	(9)	(17)	(1)	81	72	-
Total	**179**	**93**	**(4)**	**691**	**692**	**(2)**
Other Capital Expenditure	**35**	**-**	**-**	**390**	**-**	**-**
Other third party funded schemes						
HS2	220	-	-	844	-	-
Other third Party	215	-	-	827	-	-
Total	**435**	**-**	**-**	**1,671**	**-**	**-**
Total enhancements	**2,446**	**1,685**	**(27)**	**8,912**	**6,886**	**(186)**
Total enhancements less Other third party funded schemes	2,011	1,685	(27)	7,241	6,886	(186)

Statement 3.7: Analysis of enhancement expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT and TS). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the core Network Rail funders of DfT and TS.

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (either Department for Transport or Transport Scotland). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with funders (DfT and TS).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders (DfT and Transport Scotland) was £2,011m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,446m) less the PAYGO schemes funded by other third parties (£435m).

(2) Enhancement expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised this year, primarily in connection with impact of Industrial Action, on Gatwick, Crossrail and South West Resilience programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS).

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in England & Wales. Some notable variances at programme level include:

a. Thameslink – the programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than baseline which brings the control period to date position broadly in line with the funding baseline. Financial outperformance has been recognised for the year achieved through efficiencies on Automatic Route Settings (ARS), and contingency management.

b. Great Western Electrification – this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than baseline. In year and cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.

c. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. In year expenditure is greater than baseline against London to Corby Electrification (L2C) and other key outputs which has brought the control period to date largely in line with the funding baseline.

d. Transpennine Route Upgrade – this is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Financial out performance on Leeds Intermediate Interventions is due to efficient contractor delivery of works and risk management.

e. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. In year, works have progressed slower than anticipated at Bamford and Dore area and programme prolongation delaying Entry into Service to March 2024.

f. Critical station improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Work includes station improvements at Surbiton, Peckham Rye, London Liverpool Street and Victoria. Whilst additional works were delivered this year compared to the funding baseline, the overall package remains behind the regulatory baselines for the control period to date. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

g. Gatwick Airport Station – the project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Whilst progress is largely in line with the funding baseline, the programme is now expected to cost more overall and so adverse financial performance has been recognised. This is a result of additional design works and scope required to meet regulatory standards relating to improved physical security at the station.

h. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This year progress has been greater than baseline and the control period to date position is now broadly on schedule.

i. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Progress has been greater than anticipated this year with demolition works starting in January 2023 near Botley Road bridge, enabling upgrades to Oxford station. This has brought the control period to date position broadly in line with the funding baseline.

j. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress greater than anticipated in year, and cumulative the programme remains on schedule for the Power Supply Upgrade Phase 2 (PSU2). Control period to date expenditure is now closer to the funding expectation. Financial underperformance has been recognised arising from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

k. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening in year is greater than anticipated which has helped mitigate some of the underspends reported in previous years.

l. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Project has accelerated delivery this year, aligning cumulative position to baseline.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

m. Bristol East Junction – this project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the current year baseline.

n. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Expenditure in the year was higher than the baseline brining the control period to date spend in line with funding. Financial underperformance is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation works.

o. SFN-Freight – this programme aims to deliver improvements on a variety of schemes across the network to improve gauging, train lengthening and other capacity & capability advances. Activity in the current year has bought the control period to date investment broadly into line with the funding baseline.

p. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but the control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

q. Crossrail – this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east, with services now starting to run. The programme has recognised adverse financial performance as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

r. Portfolio contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance is more than offset by financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

s. West Coast PSU – the baselines were adjusted by DfT through the change control mechanism employed by their enhancements oversight board, meaning that although spend was higher than the baseline this year, the control period to date investment broadly aligns to the funding available.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

t. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. In year underspend and out performance is driven by a favourable final settlement on compensation and associated costs relating to the multi-storey car park. However, financial underperformance has been reported across the project as a whole this control period resulting from ongoing remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

u. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. In the current year expenditure was lower than the baseline but the control period to date investment is broadly consistent with the funding available.

v. Ashford to Ramsgate – whilst expenditure is was lower than the baseline in the current year the control period to date investment is broadly consistent with the funding available.

w. New Stations fund – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

x. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is lower than the baseline due to delay in work package 1 for Land access and re-design mining remediation.

y. IRP portfolio – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

z. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Transport Scotland funded schemes – enhancement expenditure this year is higher than the regulatory baseline. Project specifications and approved change controls for funding with Transport Scotland has been reflected this year which brings the control period to date position broadly in line with the funding available. Some notable variances at programme level this year include:

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

a. Edinburgh to Glasgow Improvement Programme (EGIP) – the key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Change controls made by Transport Scotland this year have reduced the funding available for the project and the associated outputs required, which has reduced the financial underperformance recognised this control period. The remaining financial underperformance recognised this control period is a result of Covid-19.

b. Aberdeen to Inverness – this project to upgrade the railway structure provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.

c. Rolling Programme of Electrification – this project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Cumulative financial performance includes final compensation settlements on completed programme.

d. New Down platform Dunbar – this project has a new platform constructed on the Down Line (northbound) at Dunbar to provide increased capacity and improve operational flexibility on the East Coast Main Line. The project was sustainably complete in 2019-20 and the financial outperformance recognised in earlier years of the control period was as a result of finalisation of contractor costs and management of programme contingencies.

e. Dunblane to Perth – this project is part of the wider Seven Cities Connectivity programme to improve links between some of the major urban areas in Scotland which aims to reduce passenger journey times. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

f. Feeder Station/Power Modelling Electrification – projects are part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Whilst delivery in the current year is in line with funding expectation progress in the control period to date has been slower than anticipated due to Covid-19 impact and delay in Transport Scotland funding release, resulting in reprofiling works into the future years on the full traction power modelling for new and enhanced feeder stations.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

g. Edinburgh Waverley Western Approaches – this project delivered preliminary work to significantly improve the rail network on the approaches to Edinburgh Waverley Station. The investment enables options for the Edinburgh Waverley Western Approaches (EWWA) project to be taken forward to Outline Business Case. This will explore three infrastructure options for delivering capacity and performance improvements in this section of the railway. Investment in the project is lower than the funding available. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

h. North Hanover Street development – this programme included improvement to Glasgow Queen Street facilities, such as retail, and increased connectivity and access from/ to the station to the surrounding area. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

i. A9 interface Lynebeg bridge – this programme is part of supporting work ahead of dualling of the A9 road between Tomatin and Moy on the Highland mainline part of the network. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

j. Far North Line route enhancement – this programme aims to upgrade the radio communications network on the Highland rail network and services it enables for passengers at stations as well as improve the safe movement of train services across the Far North line. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

k. Bushey Junction to Barrhead electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been a catch up on investment this year compared to the funding baseline which has bought the control period to date investment largely in line with funding available.

l. Dalcross new station – this project delivered a new station which opened in February 2023. This year expenditure was higher than the funding available which has bought the control period to date investment broadly in line with target.

m. Fife decarbonisation – this programme supports the removal of diesel-powered units through the introduction of Battery Electric Multiple Unit (BEMU) services, via partial electrification, with the potential for full electrification of the line and move to full electric services in the future. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

n. Millerhill interventions – this project encompassed a package of works to grow activity in Lothian and Borders area of the network. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

o. Barrhead Kilmarnock electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been minimal activity on this project so far this control period as Transport Scotland have reviewed its priorities and so the regulatory baseline has been change controlled this year.

p. Aberdeen Central Belt – this programme is part of an ongoing investment to reduce rail journey times from Aberdeen to Glasgow, Edinburgh and Dundee, and to improve connectivity and enhance capacity for both passenger and freight trains. Expenditure in the current year is lower than the funding available which has bought the control period to date position broadly in line with the funding made available by Transport Scotland.

q. Other – this heading captures investment activity on numerous smaller programmes. The negative expenditure and baseline reported in the current year is mostly due to activity reported in "other" in previous years' Regulatory Financial Statements being reclassified into individual programmes in this statement now that these enhancements have a full scope, and so baseline, to report against.

(5) Other capital expenditure – this year, this category is mostly expenditure on certain Crossrail schemes which are reported here to match funding agreements. The control period to date also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(6) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include Brent Cross new station development, Gatwick Station development, Headbolt Lane rail interchange and Ebbw Vale integration.

Great Britain
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23			FY23			FY22		
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	366	239	1,531	324	166	1,952
	PL Replace Partial	km	371	825	450	372	919	405
	PL High Output	km	131	82	1,598	223	167	1,335
	PL Refurbishment	km	101	713	142	133	826	161
	PL Track Slab Track	km	4	-	-	1	1	1,000
	Switches & Crossing - Replace	point ends	143	272	526	203	327	621
	Switches & Crossing - Other	point ends	87	909	96	167	1,276	131
	Off Track	km/No.	158	2,404	66	203	3,946	51
	Track Other		-	-	-	-	-	-
	Total		**1,361**	**-**	**-**	**1,626**	**-**	**-**
Signalling	Signalling Full	SEU	377	700	539	217	486	447
	Signalling Partial	SEU	139	377	369	45	218	206
	Signalling Refurb	SEU	162	359	451	216	493	438
	Level crossings	No.	140	343	408	91	201	453
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**818**	**-**	**-**	**569**	**-**	**-**
Civils	Underbridges	m2	319	101,560	3	362	102,033	4
	Overbridges (incl BG3)	m2	73	23,524	3	60	18,314	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	39	155,555	0	42	130,425	0
	Culverts	m2	16	4,272	4	27	5,886	5
	Footbridges	m2	11	1,893	6	17	3,786	4
	Coastal & Estuarial Defences	m2	9	3,083	3	11	2,507	4
	Retaining Walls	m2	20	7,375	3	11	5,158	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**487**	**-**	**-**	**530**	**-**	**-**
Earthworks	Earthworks - Embankments	No.	143	2,867	50	196	2,769	71
	Earthworks - Soil Cuttings	No.	176	3,627	49	200	3,898	51
	Earthworks - Rock Cuttings	No.	65	726	90	75	965	78
	Earthworks - Other	No.	8	254	31	11	94	117
	Drainage - Earthworks	m	29	110,470	0	28	141,478	0
	Drainage - Other	m	158	219,599	1	121	223,433	1
	TOTAL		**579**	**-**	**-**	**631**	**-**	**-**
Buildings	Buildings (MS)	m2	3	40,257	0	2	35,630	0
	Platforms (MS)	m2	1	1,104	1	28	910	31
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	2,655	-	1	11,410	0
	Footbridges (MS)	m2	1	240	4	-	1,500	-
	Other (MS)	m2	6	50,934	0	14	22,258	1
	Buildings (FS)	m2	30	59,945	1	22	59,340	0
	Platforms (FS)	m2	25	26,592	1	67	81,084	1
	Canopies (FS)	m2	23	28,568	1	25	12,155	2
	Train sheds (FS)	m2	9	12,668	1	1	550	2
	Footbridges (FS)	m2	22	5,549	4	40	7,033	6
	Lifts & Escalators (FS)	m2	2	46	43	2	3	667
	Other (FS)	m2	46	309,983	0	34	237,674	0
	Light Maintenance Depots	m2	11	63,736	0	17	124,137	0
	Depot Plant	m2	4	14	286	1	6	167
	Lineside Buildings	m2	32	56,449	1	37	106,882	0
	MDU Buildings	m2	45	69,928	1	40	95,062	0
	NDS Depot	m2	1	22,935	0	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**261**	**-**	**-**	**331**	**-**	**-**

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	18	70	257	38	134	284
	mid-life refurbishment	Wire runs	86	79	1,089	121	162	747
	structure renewals	No.	35	639	55	47	785	60
	other OLE		2	139	14	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	33	100	330	36	103	350
	HV Switchgear Renewal AC	No.	5	71	70	6	67	90
	HV Cables AC	No.	-	-	-	2	3	667
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	17	-
	Other AC	No.	-	-	-	1	6	167
	HV switchgear renewal DC	No.	38	59	644	20	25	800
	HV cables DC	km	51	56	911	39	48	813
	LV cables DC	km	13	39	333	4	23	174
	Transformer Rectifiers DC	No.	6	4	1,500	3	2	1,500
	LV switchgear renewal DC	No.	9	35	257	2	18	111
	Protection Relays DC	No.	-	-	-	1	22	45
	FSP	No.	3	115	26	3	116	26
	SCADA	RTU	5	62	81	-	1	-
	UPS (#)	No.	12	120	100	11	112	98
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	12	156	77	3	51	59
	Signalling Power Cables	km	55	312	176	33	343	96
	Signalling Supply Points	point end	-	3	-	3	3	1,000
	NSCD / Track Feeder Switch (#)		12	563	21	12	84	143
	Total		**395**	**-**	**-**	**385**	**-**	**-**
Telecoms	Customer Information Systems	No.	30	1,856	16	11	1,003	11
	Public Address	No.	6	3,459	2	-	113	-
	CCTV	No.	31	5,289	6	6	582	10
	Other Surveillance	No.	1	100	10	1	118	8
	PABX Concentrator	No.	7	7,766	1	13	7,979	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	1	1,000	1	9	111
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	47	-
	HMI Large	No.	-	29	-	1	28	36
	Radio		-	-	-	1	8	125
	Power		6	334	18	7	398	18
	Other comms		-	-	-	-	-	-
	Network		6	56	107	5	69	72
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**88**	**-**	**-**	**46**	**-**	**-**

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

Statement 3.8: Analysis of renewals unit costs, Great Britain – continued

In £m cash prices unless stated

(2) Track – there has been a decrease in the unit cost of a PL Replace Full compared to 2021/22. In 2021/22, Eastern and Western & Wales were both cited for having increased unit rates caused by complex projects. The completion of both projects has caused the unit rate to fall regionally which has driven the national unit rate to fall. Complexity of the job can have a strong influence on unit rate especially when the sample size is small. PL Replace Partial unit rate has increased with a higher rate in Wales and Western driving the national unit rate. Reasons for this include raw material and contractor inflation driven by the macro-economic environment. This includes impact of projects in Wales & Western portfolio which has suffered from replanning, additional scope and site complexity adding costs. PL High Output unit rate increased due to a significantly higher unit rate in North West and Central. Alongside the inflationary issues mentioned, affected projects include the 2022/23 West Coast Mainline Ballast Cleaning Programme which suffered from loss of volumes caused by access issues. Overall volume reductions also meant the fixed costs of the high output project teams being spread over fewer units. PL Track Slab unit rate has increased although this can be attributed to a small sample size with only Southern delivering units. The unit rate of both Switches and Crossings categories decreased due to a less complex workbank compared to 2021/22. For example, the unit rate of Switches & Crossing Other was £93k in 2020/21, however this increased to £118k in 2021/22 with the increase being attributed to complex projects. Since the completion of those projects, the unit rate has decreased to be more in line with 2020/21 levels at £96k for 2022/23. There has been an increase in the Off track unit rate, however Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore, each year there will be a different mix in the renewal work being done making it difficult to gain insight from such comparisons.

(3) Signalling - Signalling Full unit rates have also increased which can be attributed to projects such as Virginia Water & Ascot Resignalling Project and the Birmingham New Street Area Resignalling Project. The Virginia Water project suffered from delays and design changes which caused the project cost to increase. The Birmingham project is extremely complex with all life expired signalling being replaced and control being shifted from the Birmingham New Street Power Signal Box to the West Midlands Signalling Centre. As mentioned previously, location is also significant factor with works at Birmingham New Street likely to be more complex and harder to secure access than remote lines in the network. Signalling Partial unit increase has increased significantly in 2022/23 compared to 2021/22 mainly driven by a higher unit rate in Southern Region caused by the Victoria area signalling programme which will naturally have a higher unit rate because of the location complexity.

(4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – the unit rate from Earthworks Embankments is lower than recorded in 2021/22 and can be attributed to the majority of delivered volumes being classified as a Maintain type of intervention which are cheaper to deliver than other types of Earthworks, such as Renew and Refurb. All three of these Earthwork interventions (Maintain, Renew and Refurb) offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. The decisions around the most appropriate type of intervention in each circumstance is made by the asset management teams in each Region. Workbank mix is also a factor in the increased unit rate of Earthworks Rock Cuttings as there is a larger proportion of Renew and Refurbishment compared to Maintain. Southern recorded a significantly higher unit rate with the work bank including the CP6 Sussex Earthworks & Drainage Minor Works and Wessex CP6 Monitoring Installation and Maintenance. Both projects attracted project cost increases caused by reactive volumes and additional monitoring visits which were not anticipated in the original project cost

respectively. The unit rate for Earthworks Others has decreased which can be attributed to the small sample sizes which means unit rates can be influenced more easily.

Statement 3.8: Analysis of renewals unit costs, Great Britain – continued

In £m cash prices unless stated

(6) Buildings – Depot plant unit rate has nearly doubled from last year's accounts with 12 of the 14 volumes delivered by the Package B LMD Light Maintenance Depot Plant Renewals project at a significantly higher unit rate than last year. Platforms (MS) (Managed Stations) unit rate increased significantly with all volumes being delivered in the Victoria Station repairs programme. Due to the central London location and added complexity the unit rate is higher than recorded in 2021/22. Lifts and Escalators (FS) (Franchised Stations) unit rate has decreased with 43 more volumes being delivered in 2022/23 compared to 2021/22 whilst spending similar amounts of money. This has been mainly driven by volumes delivered in Eastern on a project focusing on Lift and Escalator fault management.

(7) Electrification & Plant - the unit rate of mid-life refurbishment has increased but is mainly driven by OLE Mid-Life Refurbishment in Eastern. Due to funding constraints, volumes were removed from the programme which reduced economies of scale and thereby drove up the overall unit rate by £0.227m per Mid-life Refurbishment wire run and £0.055 per Structural Renewal. HV cables DC unit rate increased due to Kent and Sussex HV Cable Replacement schemes both experiencing project cost increases caused by work bank planning and access issues respectively. LV Cables DC unit rate has also increased which can be attributed to inflationary pressures in the supply chain. The unit rate of Signalling Power Cables has increased, due to a higher rate in North West & Central caused by the North West Signalling Power Distribution Project. This project was approved with a higher unit rate than the previous year which was compounded when is suffered from industrial action. Track feeder switch unit rate has decreased although there was only one project in 2021/22 and 2022/23 so meaningful data analysis cannot be done with such a small sample size. LV Switchgear renewal DC unit has increased and was driven by the Kent CP6 LV Switchgear Renewal project where total project costs increased due to prolongation.

(8) Telecoms – There has been an increase in the unit cost of a DOO CCTV which can be attributed to only one project being delivered in Scotland. Due to the trivial sample size in previous and current years establishing meaningful data trends is impossible. There was also an increase in the unit cost of Network which can be attributed to the complex Macclesfield Resignalling project which featured the reassigning of control from Macclesfield to Manchester Route Operating Centre.

Great Britain
Statement 3.9: Analysis of staff costs
Cash prices

2022-23

(Headcount)	Male Permanent Full time	Male Permanent Part time	Female Permanent Full time	Female Permanent Part time	Total
66 and over	534	26	37	6	**603**
61-65	2,217	41	171	11	**2,440**
56-60	4,082	18	484	22	**4,606**
51-55	4,909	13	738	29	**5,689**
46-50	4,155	10	844	56	**5,065**
41-45	3,583	16	966	106	**4,671**
36-40	4,060	20	1,010	116	**5,206**
31-35	4,218	7	1,101	63	**5,389**
26-30	3,474	7	1,056	20	**4,557**
21-25	1,925	5	551	6	**2,487**
20 and under	224	1	52	1	**278**
Total staff employed (Headcount)	**33,381**	**164**	**7,010**	**436**	**40,991**
of which:					
train drivers					**-**
apprentices	3,542	-	479	-	**4,021**
Agency staff / Contingent Labour	720	-	369	-	**1,089**
of which apprentices	-	-	-	-	**-**

(FTE)	Headcount Male	Headcount Female	Headcount Total	Full time equivalent Male	Full time equivalent Female	Full time equivalent Total
Board executive	16	7	23	16	7	23
Executive director / director	65	14	79	64	14	78
Bands 1	414	102	516	413	102	515
Bands 2	1,451	507	1,958	1,449	503	1,952
Bands 3	2,989	1,244	4,233	2,979	1,223	4,202
Bands 4	3,674	1,741	5,415	3,664	1,712	5,376
Signallers	4,339	507	4,846	4,331	506	4,837
Electrical control operators	203	4	207	203	4	207
Maintenance	15,230	251	15,481	15,221	247	15,468
Controllers	410	69	479	408	69	477
Bands 5-8	3,776	2,897	6,673	3,759	2,817	6,576
Other	978	103	1,081	977	102	1,079
Total permanent staff	**33,545**	**7,446**	**40,991**	**33,484**	**7,306**	**40,790**
Agency staff / Contingent Labour	720	369	1,089	720	369	1,089
Total staff (FTE)	**34,265**	**7,815**	**42,080**	**34,204**	**7,675**	**41,879**

Statement 3.9: Analysis of staff costs - Continued

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	**1**	-	-	**1**
Executive director / director	15	-	3	-	1	2	**21**	-	-	**21**
Bands 1	56	6	7	-	5	9	**83**	-	-	**83**
Bands 2	149	19	10	-	12	23	**213**	-	-	**213**
Bands 3	231	16	14	2	18	31	**312**	-	-	**312**
Bands 4	233	18	6	3	16	29	**305**	-	-	**305**
Signallers	213	11	-	69	14	35	**342**	-	-	**342**
Electrical control operators	14	-	-	7	1	3	**25**	-	-	**25**
Maintenance	583	55	1	185	39	96	**959**	-	-	**959**
Controllers	32	1	-	9	2	5	**49**	-	-	**49**
Bands 5-8	194	10	1	11	11	20	**247**	-	-	**247**
Other	51	3	-	18	4	9	**85**	-	-	**85**
Total Paybill	**1,772**	**139**	**42**	**304**	**123**	**262**	**2,642**	**-**	**-**	**2,642**
Agency staff / Contingent Labour / Consultants								**118**		**118**
Total Staff Costs	**1,772**	**139**	**42**	**304**	**123**	**262**	**2,642**	**118**	**-**	**2,760**

Staff costs information

	Male	Female	Total
Salary	1,468	303	1,771
Allowances	120	19	139
Performance related pay	32	9	41
Overtime	292	11	303
Employer pension contribution	101	21	122
Employer NI contribution	224	38	262
Total Paybill	**2,237**	**401**	**2,638**
Agency staff / Contingent Labour / Consultants			118
Total Staff Costs	**2,237**	**401**	**2,756**

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	593,000	13.3
Number of employees paid in excess of highest paid director	0	
Median remuneration of workforce	44,586	

Remuneration ranged from £0 to £593,000 (2021-22 £0 to £593,000)

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Statement 3.9: Analysis of staff costs, Great Britain

In £m cash prices unless stated

Notes:

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

(2) The payroll amounts included in this statement are taken from Network Rail's payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting Guidelines. Therefore, the values in this statement may not be exactly the same as the staff costs disclosed in Network Rail's Annual Report and Accounts for the year ended 31 March 2023 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities and performance related pay.

(3) Headcount information is based on average headcount throughout the year.

Comments:

(1) The first part of this statement sets out the proportion of the workforce based on the binary Male/ Female classification mandated by ORR. This shows that whilst the proportion of Female staff is broadly in line with last year, it has dropped back marginally. The proportion of females in managerial roles has remained the same at 29% whilst maintenance roles remain overwhelmingly male. The age profile chart shows a comparatively higher level of female representation among younger staff, particularly those under 45, compared to the older employees. The age profile of employees has not significantly changed since the previous year. Network Rail's commitment to improving diversity and inclusion, along with the various programmes it is undertaking are set out in more detail on its website.

(2) The statement also shows a decrease in overall permanent full time equivalent staff employed by Network Rail of 6% compared to the previous year's published Regulatory Financial Statements as a result of restructuring programmes undertaken in response to the financial position of the industry and wider government fiscal pressures.

(3) The highest paid director remuneration as a multiple of median remuneration reduced this year compared to last year (13.8 in 2021/22 compared to 13.3 in 2022/23). This is mainly due to pay awards and performance-related pay for most of the staff whilst the highest paid director did not receive a pay award and declined performance-related pay entitlement this year. The table below is taken from the Annual Report and Accounts which states the median pay of staff at the 25th, 50th and 75th percentiles which has have all increased compared to the previous year reflecting the aforementioned pay awards and performance-related pay this year.

Percentile	Total pay & benefits
25th Percentile	£36,831
50th Percentile	£44,548
75th Percentile	£70,003

(4) Whilst the tables in this statement continue to show a gap between the average paybill for male and female full time equivalent staff, this year, once again, there has been some further move towards parity.

Great Britain
Statement 3.10: Analysis of amounts payable to auditors and independent reportor
Cash prices

Reporter information

	2022-23	2021-22
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.53	0.49
Fees payable to the company's auditors for other audit related services:		
The audit of the company's subsidiaries	0.07	0.06
Regulatory accounts audit and interim review	0.07	0.07
Total amounts payable to auditors	**0.67**	**0.62**

In addition to the audit information fee given in the table the group pays £0.3m for the audit of subsidiaries that are not performed by the group auditor

Independent Reporters	2022-23	
Expenditure with Independent Reporters	Independent Reporter Expenditure (in year)	Total in Year Expenditure
Asset Management Consulting Ltd	0.1	0.1
Ove Arup & Partners Ltd	0.8	25.3
The Nichols Group Ltd	0.1	0.9
Gutteridge Haskins & Davey Ltd	0.2	0.8
Total Expenditure with Independent Reporters	**1.2**	**27.1**

Statement 3.10: Analysis of amounts payable to auditors and independent reporter, Great Britain

In £m cash prices unless stated

Notes:

1) The information in this statement is similar to the information Network Rail Limited includes in its annual report and accounts but also applies to amounts paid to Independent Reporters for services rendered as well as amounts paid to the auditors.

2) In line with the Regulatory Accounting Guidelines and to be consistent with Network Rail's Annual Report & Accounts, the data is disclosed to the nearest £10,000 for the Reporter Information section and £100,000 for Independent Reporters section.

3) In line with the Regulatory Accounting Guidelines, no inflationary uplift is applied to the prior year comparative, unlike most of the other statements in these Regulatory Financial Statements.

Great Britain
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

2022-23

	£m
Opening RAB (2020-21 Actual prices)	**76,313**
Indexation to 2021-22 prices	84,478
RAB additions	
Renewals expenditure	4,046
Enhancements expenditure	-
Less amortisation	(4,046)
Property Sales	(32)
Closing RAB	**84,446**

Net debt

	£m
Opening net debt	**55,459**
Income	(10,911)
Expenditure	9,766
Financing Costs - Government borrowing	815
Financing Costs - index linked debt	3,190
Financing Costs - Other	130
Corporation tax	(50)
Working capital	(150)
Closing net debt	**58,249**

Statement 4: Regulatory financial position, Great Britain

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of Network Rail and how it has moved in the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £4.05bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT, Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt** of Network Rail and how it has moved during the year. Note that Regulatory debt is calculated using the rules set out in the Regulatory Accounting Guidelines and is different to the net debt presented in Network Rail's annual report and accounts. A reconciliation is included in the Appendices to these financial statements.

(8) Network Rail's closing debt is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Great Britain – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

England & Wales
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	6,862	6,845	17	-	6,485
Franchised track access charges	2,340	2,525	(185)	(77)	2,443
Other Single Till Income	628	665	(37)	(51)	685
Total Income	**9,830**	**10,035**	**(205)**	**(128)**	**9,613**
Operating expenditure					
Network operations	651	633	(18)	(18)	721
Support costs	918	811	(107)	115	954
Traction electricity, industry costs and rates	888	1,048	160	(5)	871
Maintenance	1,899	1,614	(285)	(190)	1,941
Schedule 4	718	311	(407)	(407)	327
Schedule 8	107	65	(42)	(42)	(222)
	5,181	**4,482**	**(699)**	**(547)**	**4,592**
Capital expenditure					
Renewals	3,620	3,544	(76)	(152)	3,837
Enhancements	1,832	1,592	(240)	(23)	1,800
	5,452	**5,136**	**(316)**	**(175)**	**5,637**
Risk expenditure					
Risk (Centrally-held)	-	230	230	-	-
Risk (Route-controlled)	-	156	156	-	-
funding)	-	239	239	-	-
	-	**625**	**625**	**-**	**-**
Other expenditure					
Financing costs	3,719	2,007	(1,712)	-	2,770
Corporation tax	(44)	75	119	-	-
	3,675	**2,082**	**(1,593)**	**-**	**2,770**
Total expenditure	**14,308**	**12,325**	**(1,983)**	**(722)**	**12,999**
Total Financial Out/(under) performance				**(850)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	23,528	24,583	(1,055)	-
Franchised track access charges	8,846	9,591	(745)	(235)
Other Single Till Income	2,815	2,589	226	(299)
Total Income	**35,189**	**36,763**	**(1,574)**	**(534)**
Operating expenditure				
Network operations	2,561	2,470	(91)	(96)
Support costs	3,222	3,197	(25)	236
Traction electricity, industry costs and rates	3,180	3,622	442	(3)
Maintenance	6,939	6,300	(639)	(544)
Schedule 4	1,559	1,248	(311)	(332)
Schedule 8	(391)	240	631	632
	17,070	**17,077**	**7**	**(108)**
Capital expenditure				
Renewals	13,096	12,643	(453)	(687)
Enhancements	6,537	6,194	(343)	(184)
	19,633	**18,837**	**(796)**	**(871)**
Risk expenditure				
Risk (Centrally-held)	-	532	532	-
Risk (Route-controlled)	-	380	380	-
Risk (Contingent asset management	-	621	621	-
	-	**1,533**	**1,533**	**-**
Other expenditure				
Financing costs	9,641	8,062	(1,579)	-
Corporation tax	2	162	160	-
	9,643	**8,224**	**(1,419)**	**-**
Total expenditure	**46,346**	**45,671**	**(675)**	**(979)**
Total Financial Out/(under) performance				**(1,513)**

Statement 1: Summary of regulatory financial performance, England & Wales

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of England & Wales' income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £2.2bn higher than the regulatory baseline for both this year and the control period to date regulatory baseline. The largest component of the higher net expenditure experienced this year relates to higher interest costs, largely from higher inflation increasing the costs of accreting debt instruments. The control period to date includes the aforementioned higher financing costs, lower income and higher operating costs partly offset by performance regime savings and presence of risk funds.

(2) This statement also shows that Network Rail E&W has recognised financial underperformance of £850m this year and £1,512m for the control period to date. This year has been significantly impacted by industrial action, across the performance regime, revenue and the cost of capital projects. Underperformance for the control period to date also includes the impact of Covid-19 which resulted in significantly lower property income, reduced franchised track access charges due to running fewer trains and higher maintenance costs being partially offset by improvements in the train performance regime.

(3) Income – Grant income is higher than the regulatory baseline for the year mainly due to higher network grants. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline. Income is higher than the previous year due to extra expenditure this year, particularly within the performance regime (Schedule 4 & Schedule 8). Extra network grant income has been partly offset by reduced grants for interest owing to lower market rates on certain debt instruments. Grant income is lower in the control period to date mainly due to lower interest grants due to the aforementioned lower market interest rates compared to the regulatory expectation. Grants are higher this year largely due to the higher aforementioned performance regime costs. Grant income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year is lower than the regulatory baseline due to a combination of reduced services ran as a result of industrial action and lower traction electricity charges as market prices have not risen as quickly as the regulatory baseline assumed. So far this control period, less income has been received than the regulatory baseline expected. This is mainly due to lower variable track income, owing to the aforementioned industrial action this year, but also due to the reduced level of services ran during the Covid-19 pandemic period, and lower market prices for electricity this control period. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period to date is showing a significant outperformance due to the proceeds received from disposing of part of the network in Wales (considered neutral when assessing financial performance). Removing this one-off benefit, there is a significant shortfall driven by the impact that Covid-19 has had on station footfall and so property income. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is lower than the previous year, mainly due to higher property sales last year. By their nature property sales can be variable year by year. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure - Network operations costs are slightly higher than the regulatory expectation this year and in the control period to date. This year extra investment was undertaken to improve services for passengers. The higher costs in the control period to date also reflect Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. These extra costs resulted in financial underperformance this year.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are higher than the regulatory baseline for similar reasons but also include investment in train performance improvement initiatives along with Covid-19 related expenditure. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Support costs are discussed in more detail in Statement 3.3.

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

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year due to savings in Traction electricity and Business rates. Whilst market electricity prices have increased significantly this year, many of the operators had pre-purchased requirements, which limited the impact of market rises. Business rates have been lower due to government delays in re-setting these rates owing to Covid-19. Costs are lower in the control period to date mainly due to lower electricity costs, although this is offset by lower income received from operators (refer to Statement 2). Costs have increased compared to the previous year mainly due to higher market electricity prices. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline again this year. This includes extra work on devegetation and compliance with safety standards and inflationary pressures on materials prices. The higher costs in the control period to date also include extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of Temporary Speed Restrictions and asset failure all contributing to delays. In the control period to date, there is a significant level of outperformance. Covid-19 resulted in fewer passengers and fewer services causing record levels of punctuality. This year's net outflow to operators is in contrast to the net inflow recognised last year, reflecting the impact of returning passengers on punctuality, impact of heat in the summer and a record level of Temporary Speed Restrictions due to higher levels of asset failure this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure –Renewals expenditure is slightly higher than the regulatory baseline this year adding to the additional spend in previous years of the control period. This includes extra investment funded by drawing down on the risk funds. At the start of the control period, some of the renewals activity was removed from the plan and included as a separate risk fund with the funding to be restored to renewals if risk did not materialise so the extra spend in renewals is expected. Financial underperformance has been recognised in renewals this control period including High Output track failures and reliability, delivery difficulties in signalling projects and headwinds manifesting such as increases in material and contractor rates, industrial action and Covid-19 costs. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Renewals investment is discussed in more detail in Statement 3.6.

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

In £m cash prices unless stated

(13) Capital expenditure – Enhancement expenditure this year is higher than the regulatory baseline. This mainly due to an updated CP6 cumulative baseline as agreed with the DfT which incorporates the outcomes from the Spending Review 2021 (SR21) and subsequent decisions on what outputs and future projects they want delivered. Financial underperformance has been recognised this year, with various net variances across numerous projects. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with DfT. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of DfT. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

England & Wales
Statement 2: Analysis of income
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,012	1,018	(6)	-	1,066
Variable usage charge	199	269	(70)	(70)	217
Electrification asset usage charge	19	27	(8)	(8)	20
Capacity charge	-	-	-	-	-
Open access income	31	31	-	-	32
Managed stations long term charge	69	68	1	1	74
Franchised stations long term charge	164	165	(1)	(1)	172
Traction electricity charges	511	613	(102)	-	485
Schedule 4 access charge supplement	231	230	1	1	266
	2,236	**2,421**	**(185)**	**(77)**	**2,332**
Other single till income					
Freight income					
Freight variable usage charge	56	64	(8)	(8)	63
Freight other income	3	2	1	1	1
	59	**66**	**(7)**	**(7)**	**64**
Stations income					
Managed stations qualifying expenditure	93	96	(3)	(3)	96
Franchised stations lease income	58	54	4	4	61
	151	**150**	**1**	**1**	**157**
Facility and financing charges					
Facility charges	61	62	(1)	(1)	66
	61	**62**	**(1)**	**(1)**	**66**
Property income					
Property rental	192	248	(56)	(56)	173
Property sales	14	12	2	2	72
	206	**260**	**(54)**	**(54)**	**245**
Depots Income	**98**	**90**	**8**	**8**	**105**
Other income	**7**	**5**	**2**	**2**	**7**
Freight traction electricity charges	**18**	**8**	**10**	**-**	**10**
Total other single till income	**600**	**641**	**(41)**	**(51)**	**654**
Total Regionally-managed income	**2,836**	**3,062**	**(226)**	**(128)**	**2,986**
Centrally-managed income					
Network grant	5,734	5,330	404	-	5,174
Internal financing grant	577	851	(274)	-	616
External financing grant	496	495	1	-	593
BTP grant	99	94	5	-	102
Corporation tax grant	(44)	75	(119)	-	-
Infrastructure cost charges	41	41	-	-	42
Schedule 4 access charge supplement	63	63	-	-	69
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	6,966	**6,949**	**17**	**-**	**6,596**
Other single till income					
Property income					
Property rental	10	9	1	1	11
Property sales	18	15	3	(1)	20
	28	**24**	**4**	**-**	**31**
Total other single till income	**28**	**24**	**4**	**-**	**31**
Total centrally-managed income	**6,994**	**6,973**	**21**	**-**	**6,627**
Total income	**9,830**	**10,035**	**(205)**	**(128)**	**9,613**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	3,880	3,945	(65)	-
Variable usage charge	810	1,006	(196)	(196)
Electrification asset usage charge	74	94	(20)	(20)
Capacity charge	2	-	2	2
Open access income	114	118	(4)	(4)
Managed stations long term charge	267	265	2	3
Franchised stations long term charge	629	642	(13)	(13)
Traction electricity charges	949	1,196	(247)	-
Schedule 4 access charge supplement	938	945	(7)	(7)
	7,663	**8,211**	**(548)**	**(235)**
Other single till income				
Freight income				
Freight variable usage charge	212	221	(9)	(9)
Freight other income	6	5	1	1
	218	**226**	**(8)**	**(8)**
Stations income				
Managed stations qualifying expenditure	348	366	(18)	(18)
Franchised stations lease income	216	206	10	11
	564	**572**	**(8)**	**(7)**
Facility and financing charges				
Facility charges	240	244	(4)	(5)
	240	**244**	**(4)**	**(5)**
Property income				
Property rental	413	705	(292)	(292)
Property sales	94	57	37	5
	507	**762**	**(255)**	**(287)**
Depots Income	**368**	**344**	**24**	**24**
Other income	**25**	**18**	**7**	**6**
Freight traction electricity charges	**27**	**15**	**12**	**-**
Total other single till income	**1,949**	**2,181**	**(232)**	**(277)**
Total Regionally-managed income	**9,612**	**10,392**	**(780)**	**(512)**
Centrally-managed income				
Network grant	18,573	18,765	(192)	-
Internal financing grant	2,347	3,040	(693)	-
External financing grant	2,242	2,257	(15)	-
BTP grant	364	358	6	-
Corporation tax grant	2	163	(161)	-
Infrastructure cost charges	159	160	(1)	-
Schedule 4 access charge supplement	229	231	(2)	-
Traction electricity charges	795	989	(194)	-
Freight traction electricity charges	13	13	-	-
	24,724	**25,976**	**(1,252)**	**-**
Other single till income				
Property income				
Property rental	268	267	1	3
Property sales	585	128	457	(25)
	853	**395**	**458**	**(22)**
Total other single till income	**853**	**395**	**458**	**(22)**
Total centrally-managed income	**25,577**	**26,371**	**(794)**	**(22)**
Total income	**35,189**	**36,763**	**(1,574)**	**(534)**

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is lower than the CP6 baseline this year mainly due to lower property rental income, less traction electricity income and lower variable track access. Income is higher than the previous year as additional grant income has offset apparent reductions elsewhere. The prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity, variable track access and property rental income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, due to a combination of the on-going impact of Covid recovery on service levels and property income, along with lower electricity traction costs, which is offset by corresponding lower costs. Regionally-managed income is lower than last year mainly due to planned reductions in Infrastructure cost charges. The previous year also benefitted from higher Property sales income which can be erratic given their nature. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 upon Property income and Variable track access charges.

(2) Infrastructure cost charges - fixed charge income was in line with the regulatory expectation this year. The control period to date continues to show a shortfall, mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income appears lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, many operators in England & Wales are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand. Income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021) and also due to the aforementioned industrial action this year.

(4) Electric Asset Usage – Electric Asset Usage is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As noted above, fewer trains ran this year than the regulatory baseline expected meaning less EAU income was received leading to financial underperformance. The control period to date underperformance is due to reduced services this year along with the impact that Covid-19 had on service levels earlier in the control period. Income is broadly similar to the previous year.

(5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

(6) Managed stations long term charge – income this year is broadly in line with the regulatory baseline, but is lower for the control period to date which is mostly due to lower inflation over the control period compared to the assumption in the regulatory baselines. Income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's November CPI (i.e. November 2021).

(7) Franchised stations long term charge – income this year is broadly in line with the regulatory baseline, but is lower for the control period to date which is mostly due to lower inflation over the control period compared to the assumption in the regulatory baselines. Income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

(8) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases this year, some had not pre-purchased future requirements and were instead subject to the sharp increases in market prices seen this year. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(9) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income was lower than the previous year. This is mainly due to planned reductions as reflected in the regulatory baseline for this year but also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

(10) Freight Income – income is slightly lower than the regulatory baseline this year, mainly due to the disruptive impact of industrial action. This has limited the number of services that Network Rail has been able to run to satisfy the demand from freight operators. The current year variance is also the driver of the majority of the adverse position in the control period to date.

(11) Managed stations qualifying expenditure – income is lower than the regulatory assumption this year, previous year, and the control period to date. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.

(12) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(13) Property sales – sales are broadly in line with the regulatory baseline this year. The current year is lower than the previous year reflecting the erratic nature of this income with sales only made when value can be unlocked. These higher disposals in 2021/22 have resulted in the favourable control period to date position compared to the regulatory baseline.

(14) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Income appears to be lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators are uplifted by the previous year's inflation).

(15) Freight traction electricity charges – income is higher than the regulatory baseline this year. This is mainly due to the well-publicised higher market electricity prices this year. Freight operators have been disproportionately impacted compared to franchised train operating companies, as many of these had chosen to pre-purchase expected electricity requirements when market prices were lower. Network Rail passes on the cost to operators and so this extra income is offset by higher traction electricity costs as reported in Statement 3.4. This also accounts for the increase compared to the previous year

Centrally-managed income

(1) Aggregate Centrally-managed lower is higher than the CP6 baseline mainly due to higher network grants due to difference in the timing of expenditure compared to the regulatory baseline. The extra activity this year is also driving the increase compared to the previous year and helps to reverse some of the lower than expected grants received earlier in the control period.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which reverses some of the reduced income in earlier years of the control period. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline. Income is higher than the previous year due to extra expenditure this year, particularly within the performance regime (Schedule 4 & Schedule 8).

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) British Transport Police grant – these grants are used to pay the costs of the core British Transport Police, included in Statement 3.4. Income is broadly in line with the regulatory baseline for the current year and the control period to date but lower than the prior year. This is reflected in the comparison of costs in Statement 3.4 and also because, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(7) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(8) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

(9) Schedule 4 access charge supplement – income is lower than the previous year. This is mainly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

(10) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(11) Property rental – income was broadly in line with the regulatory baseline for the year and the control period to date, as well as being in line with the previous year.

(12) Property sales – income in the control period to date is significantly higher than the regulatory baseline due to the disposal of part of the network in Wales as reported in 2019/20. This disposal was treated as neutral when assessing financial performance. Income in the current year includes the proceeds from disposal of part of the network in Eastern which is also treated as neutral for financial performance measure purposes.

England & Wales
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	630	612	(18)	(18)	695
Maintenance	1,789	1,560	(229)	(149)	1,890
Support costs	284	210	(74)	(74)	331
Traction electricity, industry costs and rates	851	1,015	164	(5)	836
Schedule 4	715	259	(456)	(456)	337
Schedule 8	98	54	(44)	(44)	(234)
	4,367	**3,710**	**(657)**	**(746)**	**3,855**
Capital expenditure					
Renewals	3,170	2,955	(215)	(152)	3,280
Enhancements	1,797	1,592	(205)	(23)	1,782
	4,967	**4,547**	**(420)**	**(175)**	**5,062**
Total Regionally-managed expenditure	**9,334**	**8,257**	**(1,077)**	**(921)**	**8,917**
Centrally-managed expenditure					
Operating expenditure					
Network operations	21	21	-	-	26
Maintenance	110	54	(56)	(41)	51
Support costs	634	601	(33)	189	623
Traction electricity, industry costs and rates	37	33	(4)	-	35
Schedule 4	3	52	49	49	(10)
Schedule 8	9	11	2	2	12
	814	**772**	**(42)**	**199**	**737**
Capital expenditure					
Renewals	450	589	139	-	557
Enhancements	35	-	(35)	-	18
	485	**589**	**104**	**-**	**575**
Risk Expenditure	**-**	**625**	**625**	**-**	**-**
Other					
Financing costs	3,719	2,007	(1,712)	-	2,770
Taxation	(44)	75	119	-	-
	3,675	**2,082**	**(1,593)**	**-**	**2,770**
Total centrally-managed expenditure	**4,974**	**4,068**	**(906)**	**199**	**4,082**
Total expenditure	**14,308**	**12,325**	**(1,983)**	**(722)**	**12,999**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	2,480	2,383	(97)	(98)
Maintenance	6,660	6,062	(598)	(500)
Support costs	1,097	815	(282)	(282)
Traction electricity, industry costs and rates	1,616	1,913	297	(11)
Schedule 4	1,565	1,047	(518)	(538)
Schedule 8	(379)	200	579	579
	13,039	**12,420**	**(619)**	**(850)**
Capital expenditure				
Renewals	11,286	10,653	(633)	(760)
Enhancements	6,150	6,181	31	(221)
	17,436	**16,834**	**(602)**	**(981)**
Total Regionally-managed expenditure	**30,475**	**29,254**	**(1,221)**	**(1,831)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	81	87	6	2
Maintenance	279	238	(41)	(44)
Support costs	2,125	2,382	257	518
Traction electricity, industry costs and rates	1,564	1,709	145	8
Schedule 4	(6)	201	207	206
Schedule 8	(12)	40	52	53
	4,031	**4,657**	**626**	**743**
Capital expenditure				
Renewals	1,810	1,990	180	73
Enhancements	387	13	(374)	37
Other	-	-	-	-
	2,197	**2,003**	**(194)**	**110**
Risk Expenditure	**-**	**1,533**	**1,533**	**-**
Other				
Financing costs	9,641	8,062	(1,579)	-
Taxation	2	162	160	-
	9,643	**8,224**	**(1,419)**	**-**
Total centrally-managed expenditure	**15,871**	**16,417**	**546**	**853**
Total expenditure	**46,346**	**45,671**	**(675)**	**(978)**

Statement 3: Analysis of expenditure, England & Wales

In £m cash prices unless stated

Comments:

1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, expenses arising from industrial action which have more than offset the presence of risk funds. Expenditure has been higher than the control period to date with greater levels of capital investment, operating expenses and financing costs have more than offset the presence of risk funds. Costs are higher than the previous year mainly due to higher financing costs and performance regime expenses.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs in the control period to date are higher with additional capital investment and operating costs. Expenses are higher than the previous year due to the scale of industrial action this year and the compensation payments this has meant through Schedule 4. In addition, as passengers have returned to the network, the financial inflows from Schedule 8 witnessed earlier in the control period have now dissipated. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has more than offset the higher financing costs experienced this year. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

England & Wales

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	258	255	(3)	(3)	286
Operations Management	86	71	(15)	(15)	92
Controllers	66	61	(5)	(5)	72
Electrical control room operators	21	18	(3)	(3)	22
	431	**405**	**(26)**	**(26)**	**472**
Non signaller expenditure					
Mobile operations managers	47	38	(9)	(9)	49
Managed stations	82	77	(5)	(5)	84
Performance	3	12	9	9	3
Other	67	80	13	13	87
Total Regionally-managed Operations expenditure	**630**	**612**	**(18)**	**(18)**	**695**
Centrally-managed Operations expenditure					
Network Services	21	21	-	-	26
Total centrally-managed Operations expenditure	**21**	**21**	**-**	**-**	**26**
Total operations expenditure	**651**	**633**	**(18)**	**(18)**	**721**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	1,020	1,000	(20)	(20)
Operations Management	310	278	(32)	(32)
Controllers	251	243	(8)	(8)
Electrical control room operators	74	71	(3)	(3)
	1,655	**1,592**	**(63)**	**(63)**
Non signaller expenditure				
Mobile operations managers	175	150	(25)	(25)
Managed stations	319	297	(22)	(22)
Performance	21	49	28	28
Other	310	295	(15)	(16)
Total Regionally-managed Operations expenditure	**2,480**	**2,383**	**(97)**	**(98)**
Centrally-managed Operations expenditure				
Network Services	81	87	6	2
Total centrally-managed Operations expenditure	**81**	**87**	**6**	**2**
Total operations expenditure	**2,561**	**2,470**	**(91)**	**(96)**

Statement 3.1: Analysis of operations expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were slightly higher than the regulatory expectation this year and in the control period to date. This year extra investment was undertaken to improve services for passengers. The higher costs in the control period to date also reflect Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Signaller and level crossing keepers – costs for the control period to date are higher than the regulatory baseline. This is mainly due to extra staff costs to ensure the railway kept moving throughout the Covid-19 pandemic. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Operations management – costs are higher than the regulatory expectation for both the current year, and the control period to date. The higher costs this year included additional resource to improve train performance for passengers as well as additional costs to comply with fatigue management safety standards. The higher costs in the control period to date also includes increased costs to ensure the railway kept moving during the Covid-19 pandemic.

(4) Controllers – costs are higher than the regulatory baseline this year but are in line with the previous year. Costs are higher in the control period to date, due to an increase in the staff premium costs as a result of high sickness levels during Covid-19 and the need to have sufficient cover for sick and self-isolating staff along with additional responsibilities arising from PFF reorganisation undertaken by the company and the associated additional outputs and capabilities.

Statement 3.1: Analysis of operations expenditure, England & Wales - continued

In £m cash prices unless stated

(5) Mobile operation managers – costs are higher than the regulatory target for this year continuing the trend of earlier years of the Control period. This was due to additional resource being invested in these teams to help improve performance. Following PPF, extra capabilities were included in the Region team in this area. The higher costs in the control period to date also include additional premium hour costs during the pandemic to provide extra resilience to resource rostering in light of staff absences.

(6) Managed stations – once again, costs are higher than the regulatory baseline. This includes staff at stations to offer a better service to the travelling public. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe.

(7) Performance – costs are lower than the regulatory baseline this year continuing the trend of earlier years of the control period. This is due to some of the performance initiatives being reported against other categories in this statement. The underspend in this category is offset by overspends in other headings. and the previous financial year. The savings in the control period to date are largely driven by the same factors.

(8) Other – costs are much lower than the regulatory target for this year, which helps offset some of the underperformance reported in earlier years of the control period. This is partly due to restructuring as a result of the PPF Programme. Responsibilities and activities that are included in the regulatory baseline in this category have been delivered by other categories in this statement. The savings in this category also help offset higher costs reported elsewhere in Operations. The higher costs for the control period to date is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6. This also accounts for the reduction in expenditure in this category compared to the previous year.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date. There is a saving compared to the previous year due to benefits from workforce reform including restrained pay, performance-related pay reductions and management modernisation reorganisation. The reduction is also due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

England & Wales
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	712	664	(48)	(10)	766
Signalling & Telecoms	285	269	(16)	(16)	321
Civils	242	195	(47)	(56)	218
Buildings	107	89	(18)	2	107
Electrical power and fixed plant	128	127	(1)	(1)	140
Other network operations	315	216	(99)	(68)	338
	1,789	**1,560**	**(229)**	**(149)**	**1,890**
Centrally-managed maintenance expenditure					
Telecoms	24	31	7	7	21
Route Services - Asset Information	28	31	3	3	34
STE Maintenance	3	4	1	1	3
Property	-	-	-	-	1
Route Services - Other	45	(12)	(57)	(45)	(7)
Other	10	-	(10)	(7)	(1)
	110	**54**	**(56)**	**(41)**	**51**
Total maintenance expenditure	**1,899**	**1,614**	**(285)**	**(190)**	**1,941**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	2,730	2,586	(144)	(107)
Signalling & Telecoms	1,125	1,048	(77)	(79)
Civils	783	748	(35)	(38)
Buildings	386	357	(29)	4
Electrical power and fixed plant	485	493	8	8
Other network operations	1,151	830	(321)	(288)
	6,660	**6,062**	**(598)**	**(500)**
Centrally-managed maintenance expenditure				
Telecoms	79	109	30	29
Route Services - Asset Information	116	119	3	(3)
STE Maintenance	16	18	2	3
Property	10	6	(4)	(4)
Route Services - Other	52	(14)	(66)	(70)
Other	6	-	(6)	1
	279	**238**	**(41)**	**(44)**
Total maintenance expenditure	**6,939**	**6,300**	**(639)**	**(544)**

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are slightly higher than the regulatory baseline this year with additional costs in both the Regionally-managed and Centrally-managed categories as described below. Costs for the control period to date are higher than the regulatory baseline reflecting extra costs this year but also expenses responding to the Covid-19 pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs is the re-organisation surrounding PPF, the extra vegetation work undertaken by most regions, the investment in performance schemes and extra costs to comply with track worker safety standards. Costs in the control period to date are higher than the regulatory baseline from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year costs are higher than the regulatory baseline which includes performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. The overspend in the control period to date is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Signalling & telecoms – this year, costs are higher than the regulatory baseline. The changing of organisational and staffing structures have predominantly increased the costs compared to the regulatory assumption for the year as have costs to develop additional skills to provide improved asset performance. Control period to date spend is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs surrounding our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain our operating license. In 2021/22, we reviewed and changed our contracting strategy leading to short term increases in cost but will ensure we deliver on meeting our examination requirements. Costs have also increased due to an increased vegetation workbank. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons. The overspend in the current year is partly mitigated by reduced reactive maintenance works. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Cost is higher than the previous year when delays in awarding framework contracts resulted in lower activity undertaken by external specialists.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher reactive maintenance expenditure. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are higher than the regulatory baseline but this is almost all due to reactive maintenance activity variances.

(6) Electrical power and fixed plant – whilst expenditure in the year is in line with the regulatory baseline, control period to date spend is lower than the regulatory baseline, primarily due to the delays in recruitment in 2020/21. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(7) Other network operations – costs are higher than the regulatory baseline this year. These extra costs include: inheritance of property through PPF, increases in costs were realised from DEAM compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year as well as the costs occurred in our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Telecoms - costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period. Costs are higher than the previous year due to a catch up of projects this year.

(3) Route services – Asset information – expenditure in the year is lower than the regulatory assumption reflecting workforce reform savings, including performance related pay, management modernisation, lower pay awards and headcount restraint. The savings in the current year are the main driver for the control period to date saving. Costs are lower than previous year as the aforementioned workforce reform savings have been delivered in the current year.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(4) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

(5) Other - costs in the current year include the reversal of some of the benefits reported last year (as shown by the comparatively lower value in the prior year equivalent). For the control period to date, the costs are slightly higher than the regulatory baseline which is mostly due to variances on reactive maintenance projects compared to the neutral regulatory baseline. In line with the guidance agreed with ORR for assessing financial performance, variances on these activities are not included. The marginal positive financial performance in the control period to date is mostly due to benefits earlier in the control period from notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories in the Regions).

England & Wales
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	22	20	(2)	(2)	27
Finance	17	14	(3)	(3)	21
Accommodation	79	60	(19)	(19)	84
Utilities	82	69	(13)	(13)	75
Other	84	47	(37)	(37)	124
	284	**210**	**(74)**	**(74)**	**331**
Centrally-managed Support costs					
Finance & Legal	31	54	23	23	47
Communications	14	20	6	6	19
Human Resources	19	31	12	12	31
System Operator	45	63	18	18	46
Property	8	16	8	8	11
Telecoms	64	50	(14)	(14)	79
Network Services	-	-	-	-	-
Safety Technical and Engineering	36	40	4	14	43
RS - IT and Business Services	109	115	6	6	126
RS - Asset Information	17	29	12	2	16
RS - Directorate	3	28	25	25	41
Other corporate functions	1	4	3	35	20
Insurance	(11)	49	60	60	32
OPEX/CAPEX Adjustment	193	69	(124)	-	137
Group costs	105	33	(72)	(6)	(25)
	634	**601**	**(33)**	**189**	**623**
Total support costs	**918**	**811**	**(107)**	**115**	**954**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	87	76	(11)	(11)
Finance	65	55	(10)	(10)
Accommodation	291	237	(54)	(53)
Utilities	282	272	(10)	(10)
Other	372	175	(197)	(198)
	1,097	**815**	**(282)**	**(282)**
Centrally-managed Support costs				
Finance & Legal	141	191	50	50
Communications	59	69	10	11
Human Resources	89	103	14	15
System Operator	151	213	62	61
Property	16	34	18	18
Telecoms	249	240	(9)	(13)
Network Services	36	58	22	22
Safety Technical and Engineering	139	150	11	20
RS - IT and Business Services	433	447	14	12
RS - Asset Information	55	100	45	35
RS - Directorate	89	90	1	1
Other corporate functions	53	66	13	14
Insurance	66	172	106	105
OPEX/CAPEX Adjustment	542	264	(278)	-
Group costs	7	185	178	167
	2,125	**2,382**	**257**	**518**
Total support costs	**3,222**	**3,197**	**(25)**	**236**

Statement 3.3: Analysis of support costs, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year mainly due to additional costs in Regions as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year mainly due to the impact of the PPF re-organisation programme necessitating additional resources. The higher costs in the control period to date include Covid-19 related expenditure and delivery of performance initiatives. Costs are lower than the previous year as a result of lower Covid-19 expenditure and investment in performance schemes.

(2) Human resources – costs are higher in the control period to date, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. Savings have been made this year compared to last reflecting workforce reform benefits, including reduced headcount, pay restraint and performance-related pay reductions.

(3) Finance – costs are higher this year and in the control period to date, reflecting Network Rail's devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance resources to support this initiative. Savings have been made this year compared to last reflecting workforce reform benefits, including reduced headcount, pay restraint and performance-related pay reductions.

(4) Accommodation – costs are significantly higher than the baseline expectation this year primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements. Costs in the control period to date are higher for similar reasons along with expenditure to ensure Covid-19 compliance at Network Rail sites.

(5) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs for the control period to date are higher due to higher utility costs incurred this year. The rising market prices also accounts for the increase in costs compared to the prior year comparative.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(6) Other – costs were higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. This is primarily due to implementation of the PPF programme, which saw an increase in costs. Higher costs in the control period to date also reflect Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs. Costs are lower than the previous year which included significant investment in the aforementioned Project Alpha to improve train performance for passengers.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher workforce reform implementation costs have been partially offset by savings arising from workforce reform and from reduced insurance expenses. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are higher than the previous year including the aforementioned greater number of projects being classified as opex rather than capex.

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Communications – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(6) Property – costs are lower than the regulatory baseline this year continuing the trend for the control period to date. The current year reflects savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The control period to date position also benefits from the favourable settlement of a long-running commercial dispute in the 2019/20. Costs are lower than the previous year reflecting the recognition of savings from workforce reform programmes.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(7) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are in lower than the regulatory baseline mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and building on savings recognised in earlier years of the control period. Costs this year includes support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(10) Route Services – IT and Business Services – costs are lower the regulatory baseline this year mostly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The outperformance in the control period to date are largely due to the efficiencies this year but also from savings made earlier in the control period through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(12) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(13) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(15) Opex/ capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

Statement 3.3: Analysis of support costs, England & Wales – continued

In £m cash prices unless stated

(16)Group – costs are higher than the regulatory baseline this year. As noted in the previous year Regulatory Financial Statements, some workforce reform savings were recognised in this category last year, these benefits have now been transferred to the rest of the business resulting in the recognition of an offsetting cost this year in Group. In addition, costs associated with modernisation programmes have been recognised in Group this year. Costs are lower than the regulatory baselines for the control period to date mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are higher than the previous year when a credit was recognised form the aforementioned workforce reform savings which have now been distributed to the other parts of the business.

England & Wales
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	524	621	97	-	490
Business rates	228	300	72	-	244
British transport police costs	99	94	(5)	(5)	102
	851	**1,015**	**164**	**(5)**	**836**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	22	18	(4)	-	19
RDG membership costs	2	2	-	-	3
RSSB costs	12	12	-	-	13
Reporters fees	1	-	(1)	-	-
Other industry costs	-	1	1	-	-
	37	**33 -**	**4**	**-**	**35**
Total traction electricity, industry costs and rates	**888**	**1,048**	**160**	**(5)**	**871**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	967	1,212	245	-
Business rates	449	511	62	-
British transport police costs	200	190	(10)	(11)
	1,616	**1,913**	**297**	**(11)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	800	1,002	202	3
Business rates	470	411	(59)	-
British transport police costs	164	169	5	5
ORR licence fee and railway safety levy	73	68	(5)	-
RDG membership costs	10	11	1	-
RSSB costs	43	45	2	-
Reporters fees	4	-	(4)	-
Other industry costs	-	3	3	-
	1,564	**1,709**	**145**	**8**
Total traction electricity, industry costs and rates	**3,180**	**3,622**	**442**	**(3)**

Statement 3.4: Analysis of traction electricity, industry costs and rates, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs are higher than last year as not all operators had pre-purchased electricity requirements and so were subject to rising market prices this year. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. This is also driving the control period to date benefit. Costs are lower than the previous year. Whilst in cash terms the costs have increased, the inflationary uplift factor was lower than the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, England & Wales – continued

In £m cash prices unless stated

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period to date. Costs are lower than the previous year. Whilst in cash terms the costs have increased, they have not risen as fast as the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the control period to date expense and compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

England & Wales
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	715	259	(456)	(456)	337
Access charge supplement Income	(231)	(230)	1	1	(266)
Net (income)/cost	**484**	**29**	**(455)**	**(455)**	**71**
Schedule 8					
Performance element income	98	-	(98)	(98)	(258)
Performance element costs	-	54	54	54	24
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**98**	**54**	**(44)**	**(44)**	**(234)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	3	52	49	49	(10)
Access charge supplement Income	(63)	(63)	-	-	(69)
Net (income)/cost	**(60)**	**(11)**	**49**	**49**	**(79)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	9	11	2	2	12
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**9**	**11**	**2**	**2**	**12**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	718	311	(407)	(407)	327
Access charge supplement Income	(294)	(293)	1	1	(335)
Net (income)/cost	**424**	**18**	**(406)**	**(406)**	**(8)**
Schedule 8					
Performance element income	98	-	(98)	(98)	(258)
Performance element costs	9	65	56	56	36
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**107**	**65**	**(42)**	**(42)**	**(222)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,565	1,047	(518)	(538)
Access charge supplement Income	(938)	(945)	(7)	(7)
Net (income)/cost	**627**	**102**	**(525)**	**(545)**
Schedule 8				
Performance element income	(562)	-	562	562
Performance element costs	183	200	17	17
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(379)**	**200**	**579**	**579**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(6)	201	207	206
Access charge supplement Income	(229)	(231)	(2)	-
Net (income)/cost	**(235)**	**(30)**	**205**	**206**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(12)	40	52	53
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(12)**	**40**	**52**	**53**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,559	1,248	(311)	(332)
Access charge supplement Income	(1,167)	(1,176)	(9)	(7)
Net (income)/cost	**392**	**72**	**(320)**	**(339)**
Schedule 8				
Performance element income	(562)	-	562	562
Performance element costs	171	240	69	70
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(391)**	**240**	**631**	**632**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Overall Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, which has negated some of the savings made earlier in the control period, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. In addition, the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period.

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The control period to date remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Income is lower than the previous year which is partly due to the relatively high inflation uplift applied to the previous year in line with the Regulatory Accounting Guidelines of 10.7% compared to the amount that the charges actually increased by (November 2021 CPI: 5.1%). Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales – continued

In £m cash prices unless stated

(3) Schedule 8 – this year's cost is similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

England & Wales

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	245	217	(28)	-	270
PL Replace Partial	178	139	(39)	-	188
PL High Output	99	102	3	-	135
PL Refurbishment	56	62	6	-	63
PL Track Slab Track	7	2	(5)	-	9
Switches & Crossing - Replace	180	184	4	-	159
Switches & Crossing - Other	59	33	(26)	-	85
Off Track	89	75	(14)	-	100
Track Other	30	(4)	(34)	-	38
	943	**810**	**(133)**	**41**	**1,047**
Signalling					
Signalling Full	331	400	69	0	312
Signalling Partial	103	46	(57)	0	87
Signalling Refurb	109	219	110	0	137
Level crossings	103	99	(4)	0	66
Minor works	184	223	39	0	204
Other	1	7	6	0	(1)
	831	**994**	**163**	**(42)**	**805**
Civils					
Underbridges	187	246	59	-	199
Overbridges	67	43	(24)	-	48
Major structures	18	17	(1)	-	22
Tunnels	20	19	(1)	-	23
Minor works	82	52	(30)	-	73
Other	40	29	(11)	-	48
	414	**406**	**(8)**	**(35)**	**413**
Earthworks					
Earthworks - Embankments	83	63	(20)	-	113
Earthworks - Soil Cuttings	73	56	(17)	-	103
Earthworks - Rock Cuttings	31	15	(16)	-	49
Earthworks - Other	10	7	(3)	-	14
	197	**141**	**(56)**	**(36)**	**279**
Buildings					
Managed stations	52	58	6	-	46
Franchised stations	155	102	(53)	-	162
Light maint depots	20	13	(7)	-	19
Depot plant	7	4	(3)	-	3
Lineside buildings	19	6	(13)	-	20
MDU buildings	47	17	(30)	-	34
Other	1	-	(1)	-	2
	301	**200**	**(101)**	**(23)**	**286**
Electrical power and fixed plant					
AC distribution	18	29	11	-	12
Overhead Line	105	59	(46)	-	134
DC distribution	70	54	(16)	-	62
Conductor rail	23	15	(8)	-	30
Signalling Power Supplies	51	79	28	-	40
Other	9	33	24	-	8
Fixed plant	41	20	(21)	-	29
	317	**289**	**(28)**	**(35)**	**315**
Drainage					
Drainage (Track)	69	39	(30)	-	55
Drainage (Earthworks)	17	17	-	-	8
Drainage (Resilience)	4	7	3	-	5
	90	**63**	**(27)**	**(22)**	**68**
Property					
Property	77	52	(25)	-	67
	77	**52**	**(25)**	**-**	**67**
Total Regionally-managed renewals expenditure	**3,170**	**2,955**	**(215)**	**(152)**	**3,280**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	17	-	(17)	-	-
	17	**-**	**(17)**	**(18)**	**-**
Telecoms					
Operational communications	16	26	10	-	10
Network	18	13	(5)	-	13
SISS	41	41	-	-	14
Projects and other	4	3	(1)	-	5
Non-route capital expenditure	54	61	7	-	62
	133	**144**	**11**	**(12)**	**104**
Wheeled plant and machinery					
High output	11	15	4	-	29
Incident response	-	-	-	-	1
Infrastructure monitoring	3	20	17	-	3
Intervention	4	27	23	-	14
Materials delivery	11	22	11	-	10
On track plant	3	18	15	-	1
Seasonal	5	19	14	-	3
Other	22	45	23	-	35
	59	**166**	**107**	**-**	**96**
Route Services					
Business Improvement	40	1	(39)	-	53
IT Renewals	19	73	54	-	27
Asset Information	7	3	(4)	-	9
Other	6	15	9	-	13
	72	**92**	**20**	**-**	**102**
STE Renewals					
Intelligent infrastructure	60	52	(8)	-	84
Faster Isolations	49	54	5	-	53
Centrally Managed Signalling Costs	5	11	6	-	6
Research and development	42	53	11	-	38
Integrated Management System (Incl. BCR)	-	15	15	-	-
Other National SCADA Programmes	4	6	2	-	19
Small plant	9	8	(1)	-	10
Other	92	8	(84)	-	95
	261	**207**	**(54)**	**-**	**305**
Property					
Property	3	61	58	-	3
	3	**61**	**58**	**-**	**3**
Other renewals					
ETCS	10	15	5	-	33
Digital Railway	21	21	-	-	16
Civils & Drainage - Insurance Fund	5	26	21	34	2
Buildings - Insurance Fund	4	15	11	-	-
OPEX/CAPEX Adjustment	(193)	(69)	124	-	(132)
Phasing overlay	-	(119)	(119)	-	-
System Operator	27	25	(2)	-	22
Other renewals	31	5	(26)	(4)	6
	(95)	**(81)**	**14**	**30**	**(53)**
Total centrally-managed renewals expenditure	**450**	**589**	**139**	**-**	**557**
TOTAL RENEWALS EXPENDITURE	**3,620**	**3,544**	**(76)**	**(152)**	**3,837**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	937	816	(121)	-
PL Replace Partial	655	523	(132)	-
PL High Output	470	483	13	-
PL Refurbishment	219	240	21	-
PL Track Slab Track	16	5	(11)	-
Switches & Crossing - Replace	677	704	27	-
Switches & Crossing - Other	224	139	(85)	-
Off Track	330	230	(100)	-
Track Other	139	(5)	(144)	-
	3,667	**3,135**	**(532)**	**(212)**
Signalling				
Signalling Full	1,139	1,260	121	-
Signalling Partial	245	198	(47)	-
Signalling Refurb	369	607	238	-
Level crossings	270	365	95	-
Minor works	683	681	(2)	-
Other	4	22	18	-
	2,710	**3,133**	**423**	**(172)**
Civils				
Underbridges	656	841	185	-
Overbridges	164	170	6	-
Major structures	70	59	(11)	-
Tunnels	83	105	22	-
Minor works	277	191	(86)	-
Other	154	150	(4)	-
	1,404	**1,516**	**112**	**(65)**
Earthworks				
Earthworks - Embankments	425	258	(167)	-
Earthworks - Soil Cuttings	308	230	(78)	-
Earthworks - Rock Cuttings	139	69	(70)	-
Earthworks - Other	39	27	(12)	-
	911	**584**	**(327)**	**(116)**
Buildings				
Managed stations	170	217	47	-
Franchised stations	597	484	(113)	-
Light maint depots	68	49	(19)	-
Depot plant	25	28	3	-
Lineside buildings	76	29	(47)	-
MDU buildings	136	97	(39)	-
Other	5	-	(5)	-
	1,077	**904**	**(173)**	**(77)**
Electrical power and fixed plant				
AC distribution	48	86	38	-
Overhead Line	400	265	(135)	-
DC distribution	192	153	(39)	-
Conductor rail	82	53	(29)	-
Signalling Power Supplies	158	238	80	-
Other	56	109	53	-
Fixed plant	118	81	(37)	-
	1,054	**985**	**(69)**	**(74)**
Drainage				
Drainage (Track)	226	194	(32)	-
Drainage (Earthworks)	49	55	6	-
Drainage (Resilience)	19	24	5	-
	294	**273**	**(21)**	**(44)**
Property				
Property	169	123	(46)	-
	169	**123**	**(46)**	**-**
Total Regionally-managed renewals expenditure	**11,286**	**10,653**	**(633)**	**(760)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	33	-	(33)	-
	33	**-**	**(33)**	**(18)**
Telecoms				
Operational communications	41	78	37	-
Network	42	46	4	-
SISS	74	143	69	-
Projects and other	15	11	(4)	-
Non-route capital expenditure	261	252	(9)	-
	433	**530**	**97**	**(26)**
Wheeled plant and machinery				
High output	68	76	8	-
Incident response	1	-	(1)	-
Infrastructure monitoring	13	54	41	-
Intervention	37	87	50	-
Materials delivery	28	111	83	-
On track plant	7	39	32	-
Seasonal	15	45	30	-
Other	84	66	(18)	-
	253	**478**	**225**	**-**
Route Services				
Business Improvement	241	121	(120)	-
IT Renewals	115	231	116	-
Asset Information	24	27	3	-
Other	27	23	(4)	-
	407	**402**	**(5)**	**-**
STE Renewals				
Intelligent infrastructure	223	166	(57)	-
Faster Isolations	196	230	34	-
Centrally Managed Signalling Costs	19	37	18	-
Research and development	152	161	9	-
Integrated Management System (Incl. BCR)	-	46	46	-
Other National SCADA Programmes	62	61	(1)	-
Small plant	27	31	4	-
Other	262	50	(212)	-
	941	**782**	**(159)**	**-**
Property				
Property	35	132	97	-
	35	**132**	**97**	**-**
Other renewals				
ETCS	72	88	16	(2)
Digital Railway	40	(12)	(52)	-
Civils & Drainage - Insurance Fund	19	101	82	83
Buildings - Insurance Fund	4	58	54	-
OPEX/CAPEX Adjustment	(522)	(264)	258	-
Phasing overlay	-	(391)	(391)	-
System Operator	65	68	3	-
Other renewals	30	18	(12)	36
	(292)	**(334)**	**(42)**	**117**
Total centrally-managed renewals expenditure	**1,810**	**1,990**	**180**	**73**
TOTAL RENEWALS EXPENDITURE	**13,096**	**12,643**	**(453)**	**(687)**

Statement 3.6: Analysis of renewals expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year but lower than last year's outturn. This is partly due to the high inflation rate used to uplift the previous year's expenditure in line with the Regulatory Accounting Guidelines. Also, industrial action impacted delivery as a number of jobs had to be rescheduled and funds diverted away from core renewals programmes to cover the compensation costs payable to operators. Expenditure in the control period to date is higher than the regulatory expectation as contingent asset money (shown as risk funds in the regulatory baseline in Statement 1) has been incorporated into the core plans to deliver improvements to the railway infrastructure. Net financial underperformance has been reported across the portfolio this year and for the control period to date. Significant causes this year include: financial underperformance within the track portfolio due to High Output, industrial action leading to project prolongation and higher inflationary challenges.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year which mostly reflects higher like-for-like project costs across the portfolio. The control period to date is higher than the regulator expected reflecting the draw down and utilisation of risk funds included in the regulatory baseline. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank so the additional spend in the control period to date is unsurprising. Financial underperformance has been recognised across almost all asset categories as discussed below. Costs are lower than the previous year. This is mostly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(2) Track – investment is higher than the regulatory baseline both this year and in the control period to date and negative financial performance has been reported for the control period to date. Across the portfolio, higher materials expenses have increased costs. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost in the current year due to industrial action and the Queen's funeral whilst access from operators across the control period has also impacted ability to deliver planned workbanks. High output has spent less this control period which is due to a significantly reduced workbank. However, the reduction in volumes outweighs the saving in cost, which has contributed to adverse financial performance. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Financial outperformance reported this year includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Additional wheel timber investment and work at Carstairs in Scotland have driven the extra spend in Off track. Track other is higher due to underutilisation of teams delivering track portfolios which has been treated as financial underperformance. Costs are lower than the previous year. This includes the impact of the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(3) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects. The regulatory baseline included an ambitious increase in the level of Signalling to be delivered on the network which has not proved possible. Cash constraints at the end of CP5 limited development works that could be undertaken before the start of CP6. These delays have been exacerbated by Covid-19 which led to the workbank needing to be re prioritised, which impacted the ability to deliver on time. Financial underperformance has been recognised in the control period to date. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham Resignalling have all contributed to the underperformance. In addition, higher tender prices necessitating design changes, the added complexity of certain schemes, such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales, have hindered progress and resulted in project prolongation costs. Delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project and higher component market prices have also furthered underperformance. Earlier in the control period Covid-19 impacted the signalling portfolio, with prolongation in programmes along with the associated claims leading to projects incurring extra costs. Investment appears broadly in line with the previous year but spend in cash terms has increased noticeably. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly. Underlying reductions in the year include reduced delivery at major programmes including Birmingham New Street, Kings Cross remodelling and Paddington Train Detection programme as these projects move through their life cycle. These have been partly offset by a step up in activity on other schemes such as Port Talbot and Cambridge.

(4) Civils – overall expenditure was broadly in line with the regulatory baseline this year across the portfolio with savings on Underbridges offsetting additional investment elsewhere. For the control period to date, expenditure is lower than the regulatory expenditure with a broadly commensurate movement in weighted structures volumes delivered. The reduction in spend and activity has mainly been due to decisions made in the Regions on their asset management approach, prioritising investment elsewhere in the renewals portfolio, the such as Track and Earthworks. This has helped drive an increase in Minor works expenditure compares with decreases in the other categories, which have associated volumes as cheaper interventions are undertaken to enable appropriate safety and performance levels to be achieved. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates. This includes industrial action and the Queen’s funeral in the current year along with Covid-19 impact earlier in the control period along with issues on access. These type of incidents and circumstances generally lead to project prolongation, abortive costs or fewer units to spread fixed costs over, all of which increase like-for-like project expenses. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Costs are lower than the previous year. This includes the impact of the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(5) Earthworks – investment in the year, and control period to date, was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. The higher investment also included adverse weather impacts following storms, particularly in the Southern region, flooding during Christmas 2020 and February 2022 which have been reported in this category with reduced spend reported against the Centrally-managed Insurance categories. Continued environmental turbulence, more extreme weather and a better understanding of the assets has resulted in significantly more volumes being delivered so far this control period compared to the regulatory expectation. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates for the projects that have been delivered. This includes industrial action and the Queen’s funeral in the current year along with Covid-19 impact earlier in the control period along with issues on access. These type of incidents and circumstances generally lead to project prolongation or abortive costs. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Expenditure is lower than the previous year with reductions in investment and volume delivery across almost all Regions as investment efforts were reprioritised locally. This is also partly because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high.

(6) Buildings investment was higher than the regulatory baseline this year add to the control period to date position as regions have drawn down from the risk funds to deliver additional works with the overspend here being funded by the savings in risk fund expenditure as set out in Statement 1. So far this control period, additional investment in Franchised stations, Lineside buildings and maintenance depots has been partly offset by reduced work at Managed stations as activity has been reprioritised. The extra spend at Franchised stations includes fitting tactile paving to make the passenger experience more inclusive. Lineside buildings & maintenance depots were upgraded this control period including work at Holbeck and Leicester (both Eastern), Ebbw and Didcot (both Wales & Western), Stoke (North West & Central) and safety improvements at GTR depots (Southern). The control period to date position also included the impact of Covid, when regions used available resources and access to stations to increase investment. Financial underperformance was experienced this control period due to a number of factors including: scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, increased project complexity, discovery of asbestos which led to higher design and delivery costs, the impact of Covid-19 disruption and necessary changes to working practices, inaccurate asset designs and cancellation of jobs in light of funding constraints.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year, continuing the trend for the control period to date. Extra spend in the control period to date on overhead line works has been partly offset by lower than expected investment on signalling power supplies. The additional overhead line works this control period include a major refurbishment campaign in Anglia, investment in North West & Central's improvement performance plan (Project Alpha) and work in Scotland to help deliver Scottish government's environmental targets. Financial underperformance has been recognised so far this control period due to higher net like-for-like costs across the portfolio. This includes delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia along with volume reductions arising from constrained funding losing anticipated economies of scale on the programme and reduced access requirements during Christmas in Stratford. In addition late changes in scope, higher than anticipated supply chain prices and retendering of jobs due to unacceptable performance from contractors all resulted in higher costs. Covid-19 disruption, sickness and social distancing measures also increased average unit rates.

(8) Drainage – expenditure is higher than the regulatory baseline this year which has resulted in an overspend recognised in the control period to date. The extra costs are mainly due to the financial underperformance recognised in the control period so far with many of the issues in the Southern region. A high level of emergency works in response to Stonehaven tragedy, inclement weather or deteriorated asset condition were required, with these reactive projects incurring a higher level of average cost. Few of these incidents qualified as insurable events and so the adverse financial performance recognised in the regions is partly offset by the outperformance recognised in centrally-managed costs. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on, difficulty obtaining access to worksites and contractor performance. The control period to date position also reports underperformance additionally resulting from Covid-19 and extra work required to combat inclement weather. Costs are higher than the previous year as activity ramps up in this area to improve asset condition in light of more volatile environmental factors.

(9) Property – expenditure is slightly higher than the regulatory assumption this year continuing the trend of earlier years of the control period. Following devolution of responsibility to the Regions, further opportunities have been identified within the portfolio for investment. This extra spend is more than offset by savings in the Centrally-managed property category. Significant projects this year included works at Waterloo and Euston to help generate additional retail venue in the future.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery and property being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to higher spend being transferred to OPEX this year as well as the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(2) Track – no costs were recognised for this year, in line with the regulatory expectation. Costs in the control period to date relate to costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

(3) Telecoms – investment is lower than the regulatory baseline in the year and the control period to date, although activity has ramped up this year. Slippage on operational communications and SISS are the primary reasons for the lower spend this control period. As noted in the previous year's Regulatory Financial Statements, significant investment in CIS CCTV was expected this year and contributes to the increase in spend compared to the previous year. Regional decisions have been made to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Further step ups in investment are expected next year across the Telecoms estate. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

   a. High output – investment was lower than the regulatory baseline this year which added to the overall underspend position in the control period to date as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. Spend is noticeably lower than the prior year comparative which included significant investment in renewing the high output ballast cleaner system fleet.

   b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

   c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7. Costs are noticeably lower than the previous year which included investment in replacing track plain line stoneblower machines and rail milling train purchase.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date. The primary cause of the underspend for the control period to date is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year, expenditure was, once again, lower than the regulatory baseline, continuing the trend of the control period so far. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend of the control period to date. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline this year and in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories. The control period to date investment is higher than the regulatory baseline expected. Spend is lower than the previous year which included investment in fleet support plant where additional facilities renewals have been identified.

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year which is partly due to the high inflation rate applied to the prior year comparative in line with Regulatory Accounting Guidelines and partly due to more of the programme outputs having been delivered by this point of the control period. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

b. Faster isolations – costs are lower than the regulatory baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but broadly in line with last year's outturn. This reflects the lower overall Signalling costs this year compared to expectation. The control period to date also shows a similar relationship to overall Signalling costs.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. The lower spend in the current year means the control period to date is now also lower then than the regulatory target. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

g. Small Plant – investment is broadly in line with the regulatory baseline this year but lower in the control period to date. To help with Network Rail's move to a more devolved structure, management of this fund was passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

(7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage. In addition, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. The lower spend in the control period to date is due to the same factors.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(8) Other – investment is lower than the regulatory baseline in the current year but higher in the control period to date, mainly due to the impact of the Phasing delay. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as the programme has been revaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area. Costs are lower than the previous year which included investment in GPRS integration projects.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. System Operator – expenditure this year and the control period to date is broadly in line with the regulatory baseline. Costs are higher than the previous year due to differences in the phasing delivery assumed in the regulatory baseline compared to the actual profile of activity.

h. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

England & Wales
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	10	1	8	165	168	8
Great Western Electrification	10	(17)	(2)	252	251	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	5	6	-	74	75	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	128	99	-	679	683	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	13	-
Trans Pennine Route Upgrade	604	604	3	1,490	1,488	19
Hope Valley Capacity	57	60	(1)	75	84	(1)
Cambridge South Station Dvpt 2	15	15	-	30	30	-
Critical Stations Improvement Fund	15	9	1	30	43	1
Gatwick Station	59	56	(20)	166	168	(21)
East West Rail Phase 2	181	155	-	741	755	-
Oxford Corridor Capacity Phase 2	28	22	-	52	51	-
GWEP Distribution Network Operators clearance work	(12)	-	-	(6)	(7)	-
East Coast Main Line Enhancements Programme	81	64	-	559	578	(29)
Manchester Improvements	26	10	(1)	55	70	-
Reading Independent Feeder (Power Supply)	19	13	1	48	47	(3)
Bristol East Junction	3	(26)	3	92	93	26
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	49	40	(7)	134	132	(10)
St Albans Station Capacity	3	-	-	7	6	-
London Euston (in support of High Speed Rail Group scheme)	17	27	1	49	50	-
SFN-Freight Forecasts project	(7)	(4)	(2)	23	23	2
Access for All	66	62	-	147	195	-
Thameslink Resilience Programme	(2)	1	2	21	24	3
Midlands Hub - Continued Design and Early Development	7	6	-	11	12	-
Western Rail Access to Heathrow	-	-	(1)	15	16	-
Crossrail	8	23	(7)	194	197	(146)
Integrated Crewe Hub - HS2	-	-	(2)	6	6	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Dr Days to Filton Abbey Wood Capacity	(1)	-	-	9	10	-
Portfolio Contingency (including T-12)	-	-	-	10	13	37
Depots & Stabling Fund	1	5	-	31	35	-
Northern Hub	(1)	(5)	(5)	48	49	-
Thames Valley EMU Capability	-	-	-	10	11	-
West Coast PSU	1	(13)	(2)	8	6	-
IEP Western Capability	-	1	-	17	20	-
West of England Plat Length	-	-	-	4	4	-
Feltham	-	1	-	9	10	-
High Speed 2	(7)	-	-	-	-	-
Birmingham New Street Gateway	(12)	(6)	3	10	13	(11)
Access to Assets	2	(1)	-	11	13	-
Restoring Your Railway	50	55	(1)	102	105	(1)
University Station	-	1	-	12	12	-
Energy Coast Rail Upgrade Project	-	1	(3)	6	6	-
GWML W10-W12 Gauge Enhancement	-	1	-	11	11	-
NWEP Phase 7 Lostock - Wigan	12	14	-	18	19	-
Crumlin River Bridge	-	1	-	4	5	1
W009 West of England DMU Capability	-	(2)	-	6	5	-
Anglia Traction PSU	1	-	1	9	4	-
EC Digital	201	221	-	307	307	-
Ely Area Capacity Enh	-	-	-	10	12	-
Ashford to Ramsgate	1	(5)	-	3	3	-
Clapham Junction Short-term	5	3	-	7	8	-
Darlington Station Improvements	5	5	-	8	14	-
Denmark Hill Congestion Relief	-	(1)	-	3	7	-
Tactile Paving Installation	19	13	-	25	23	-
New Stations Fund	1	(2)	-	3	14	-
River Irwell Fl Resil	-	(1)	-	3	5	-

W Mid New Stations	39	47	-	39	47	-
LNWS623 Bushey PSU	10	10	-	10	10	-
IRP Portfolio	25	32	-	25	32	-
Other	75	(10)	8	198	48	(1)
Total	**1,797**	**1,592**	**(23)**	**6,160**	**6,194**	**(184)**

Statement 3.7: Analysis of enhancements expenditure - continued

Other Capital Expenditure	**35**	**-**	**-**	**377**	**-**	**-**
Other third party funded schemes						
HS2	220	-	-	844	-	-
Other third Party	205	-	-	812	-	-
Total	425	-	-	1,656	-	-
Total enhancements	**2,257**	**1,592**	**(23)**	**8,193**	**6,194**	**(184)**
Total enhancements less Other third party funded schemes	1,832	1,592	(23)	6,537	6,194	(184)

Tactile Paving Installation	19	13	-	25	23	-
New Stations Fund	1	(2)	-	3	14	-
River Irwell Fl Resil	-	(1)	-	3	5	-
W Mid New Stations	39	47	-	39	47	-
LNWS623 Bushey PSU	10	10	-	10	10	-
IRP Portfolio	25	32	-	25	32	-
Other	75	(10)	8	198	48	(1)
Total	**1,797**	**1,592**	**(23)**	**6,160**	**6,194**	**(184)**

Statement 3.7: Analysis of enhancements expenditure - continued

Other Capital Expenditure	**35**	**-**	**-**	**377**	**-**	**-**
Other third party funded schemes						
HS2	220	-	-	844	-	-
Other third Party	205	-	-	812	-	-
Total	425	-	-	1,656	-	-
Total enhancements	**2,257**	**1,592**	**(23)**	**8,193**	**6,194**	**(184)**
Total enhancements less Other third party funded schemes	1,832	1,592	(23)	6,537	6,194	(184)

Statement 3.7: Analysis of enhancement expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the England & Wales' core funder (DfT).

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). This organisation plays an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with England and Wales's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core England & Wales funder (DfT) was £1,832m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,257m) less the PAYGO schemes funded by other third parties (£425m).

(2) Enhancement expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised this year, primarily in connection with impact of industrial action, on Gatwick, Crossrail and South West Resilience programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)).

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in England & Wales. Some notable variances at programme level include:

a. Thameslink – the programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than baseline which brings the control period to date position broadly in line with the funding baseline. Financial outperformance has been recognised for the year achieved through efficiencies on Automatic Route Settings (ARS), and contingency management.

b. Great Western Electrification – this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than baseline. In year and cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.

c. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. In year expenditure is greater than baseline against London to Corby Electrification (L2C) and other key outputs which has brought the control period to date largely in line with the funding baseline.

d. Trans Pennine Route Upgrade – this is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Financial out performance on Leeds Intermediate Interventions is due to efficient contractor delivery of works and risk management.

e. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. In year, works have progressed slower than anticipated at Bamford and Dore area and programme prolongation delaying Entry into Service to March 2024.

f. Critical station improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Work includes station improvements at Surbiton, Peckham Rye, London Liverpool Street and Victoria. Whilst additional works were delivered this year compared to the funding baseline, the overall package remains behind the regulatory baselines for the control period to date. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

g. Gatwick Airport Station – the project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Whilst progress is largely in line with the funding baseline, the programme is now expected to cost more overall and so adverse financial performance has been recognised. This is a result of additional design works and scope required to meet regulatory standards relating to improved physical security at the station.

h. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This year progress has been greater than baseline and the control period to date position is now broadly on schedule.

i. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Progress has been greater than anticipated this year with demolition works starting in January 2023 near Botley Road bridge, enabling upgrades to Oxford station. This has brought the control period to date position broadly in line with the funding baseline.

j. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress greater than anticipated in year, and cumulative the programme remains on schedule for the Power Supply Upgrade Phase 2 (PSU2). Control period to date expenditure is now closer to the funding expectation. Financial underperformance has been recognised arising from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

k. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening in year is greater than anticipated which has helped mitigate some of the underspends reported in previous years.

l. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Project has accelerated delivery this year, aligning cumulative position to baseline.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

m. Bristol East Junction – this project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the current year baseline.

n. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Expenditure in the year was higher than the baseline brining the control period to date spend in line with funding. Financial underperformance is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation works.

o. SFN-Freight – this programme aims to deliver improvements on a variety of schemes across the network to improve gauging, train lengthening and other capacity & capability advances. Activity in the current year has bought the control period to date investment broadly into line with the funding baseline.

p. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but the control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

q. Crossrail – this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east, with services now starting to run. The programme has recognised adverse financial performance as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

r. Portfolio Contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance is more than offset by financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

s. West Coast PSU – baselines were adjusted by DfT through the change control mechanism employed by their enhancements oversight board, meaning that although spend was higher than the baseline this year, the control period to date investment broadly aligns to the funding available.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

t. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Underspend and out performance this year is driven by a favourable settlement on compensation and associated costs relating to the multi-storey car park. However, financial underperformance has been reported across the project as a whole this control period resulting from ongoing remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

u. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. In the current year expenditure was lower than the baseline but the control period to date investment is broadly consistent with the funding available.

v. Ashford to Ramsgate – whilst expenditure is was lower than the baseline in the current year the control period to date investment is broadly consistent with the funding available.

w. New Stations fund – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

x. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is lower than the baseline due to delay in work package 1 for Land access and re-design mining remediation.

y. IRP portfolio – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

z. Other – this category covers a number of smaller projects, including CP5 close out projects and Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this year, this category is mostly expenditure on certain Crossrail schemes which are reported here to match funding agreements. The control period to date also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include Brent Cross new station development, Gatwick Station development, Headbolt Lane rail interchange and Ebbw Vale integration.

England & Wales
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23			FY23			FY22		
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	307	198	1,551	292	146	2,000
	PL Replace Partial	km	250	520	481	276	654	422
	PL High Output	km	131	82	1,598	195	144	1,354
	PL Refurbishment	km	77	473	163	113	643	176
	PL Track Slab Track	km	4	-	-	1	1	1,000
	Switches & Crossing - Replace	point ends	140	263	532	164	276	594
	Switches & Crossing - Other	point ends	61	693	88	142	1,089	130
	Off Track	km/No.	119	1,107	107	169	2,700	63
	Track Other		-	-	-	-	-	-
	Total		**1,089**			**1,352**		
Signalling	Signalling Full	SEU	377	700	539	209	475	440
	Signalling Partial	SEU	70	178	393	36	211	171
	Signalling Refurb	SEU	152	335	454	212	482	440
	Level crossings	No.	139	342	406	81	196	413
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**738**			**538**		
Civils	Underbridges	m2	274	74,294	4	265	66,331	4
	Overbridges (incl BG3)	m2	67	21,556	3	43	14,345	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	27	143,680	0	42	130,376	0
	Culverts	m2	12	3,675	3	15	4,351	3
	Footbridges	m2	11	1,893	6	17	3,786	4
	Coastal & Estuarial Defences	m2	9	3,083	3	8	1,532	5
	Retaining Walls	m2	17	5,902	3	10	4,291	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**417**			**400**		
Earthworks	Earthworks - Embankments	No.	135	2,553	53	179	2,494	72
	Earthworks - Soil Cuttings	No.	119	2,428	49	146	2,665	55
	Earthworks - Rock Cuttings	No.	57	618	92	63	720	88
	Earthworks - Other	No.	4	221	18	11	72	153
	Drainage - Earthworks	m	19	83,021	0	22	105,505	0
	Drainage - Other	m	137	187,445	1	99	183,651	1
	TOTAL		**471**			**520**		
Buildings	Buildings (MS)	m2	3	39,857	0	2	35,630	0
	Platforms (MS)	m2	1	1,104	1	28	910	31
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	2,655	-	1	11,410	0
	Footbridges (MS)	m2	1	240	4	-	-	-
	Other (MS)	m2	6	50,934	0	14	20,758	1
	Buildings (FS)	m2	26	57,208	0	16	53,814	0
	Platforms (FS)	m2	22	24,585	1	61	64,185	1
	Canopies (FS)	m2	22	27,354	1	25	12,155	2
	Train sheds (FS)	m2	9	12,668	1	-	550	-
	Footbridges (FS)	m2	22	5,549	4	38	6,142	6
	Lifts & Escalators (FS)	m2	1	45	22	2	3	667
	Other (FS)	m2	41	306,733	0	34	237,674	0
	Light Maintenance Depots	m2	11	63,185	0	15	118,774	0
	Depot Plant	m2	4	14	286	1	5	200
	Lineside Buildings	m2	32	55,621	1	37	106,882	0
	MDU Buildings	m2	44	66,398	1	40	95,062	0
	NDS Depot	m2	1	22,935	0	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**246**			**314**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	18	70	257	38	134	284
	mid-life refurbishment	Wire runs	86	79	1,089	121	162	747
	structure renewals	No.	35	639	55	47	784	60
	other OLE		2	139	14	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	33	100	330	36	103	350
	HV Switchgear Renewal AC	No.	-	4	-	-	-	-
	HV Cables AC	No.	-	-	-	2	3	667
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	38	59	644	20	25	800
	HV cables DC	km	51	56	911	39	48	813
	LV cables DC	km	13	39	333	4	23	174
	Transformer Rectifiers DC	No.	6	4	1,500	3	2	1,500
	LV switchgear renewal DC	No.	9	35	257	2	18	111
	Protection Relays DC	No.	-	-	-	1	22	45
	FSP	No.	3	115	26	3	116	26
	SCADA	RTU	5	62	81	-	-	-
	UPS (#)	No.	10	97	103	10	89	112
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	12	156	77	3	51	59
	Signalling Power Cables	km	52	291	179	31	322	96
	Signalling Supply Points	point end	-	-	-	3	3	1,000
	NSCD / Track Feeder Switch (#)		12	563	21	12	84	143
	Total		**385**			**375**		
Telecoms	Customer Information Systems	No.	26	1,391	19	4	395	10
	Public Address	No.	6	3,459	2	-	113	-
	CCTV	No.	31	5,289	6	6	582	10
	Other Surveillance	No.	-	13	-	-	15	-
	PABX Concentrator	No.	7	7,766	1	13	7,893	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	1	9	111
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	44	-
	HMI Large	No.	-	29	-	1	28	36
	Radio		-	-	-	-	-	-
	Power		6	334	18	7	397	18
	Other comms		-	-	-	-	-	-
	Network		6	56	107	5	69	72
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**82**			**37**		

Statement 3.8: Analysis of renewals unit costs, England & Wales

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - There has been a decrease in the unit cost of a PL Replace Full compared to 2021/22. In 2021/22, Eastern and Western & Wales were both cited for having increased unit rates caused by complex projects. The completion of both projects has caused the unit rate to fall regionally which has driven a decrease in the national unit rate. Complexity of the job can have a strong influence on unit rate especially when the sample size is small. PL Replace Partial unit rate has increased with a higher rate in Wales and Western driving the national unit rate. Reasons for this include raw material and contractor inflation driven by the macro-economic environment. This includes impact of projects in Wales & Western portfolio which has suffered from replanning, additional scope and site complexity adding costs. PL High Output unit rate increased due to a significantly higher unit rate in North West and Central. Alongside the inflationary issues mentioned, affecting projects include the 2022/23 West Coast Mainline Ballast Cleaning Programme which suffered from loss of volumes caused by access issues. Overall volume reductions also meant the fixed costs of the high output project teams being spread over fewer units. PL Track Slab unit rate has increased although this can be attributed to a small sample size with only Southern delivering units. The unit rate of both Switches and Crossings categories decreased due to a less complex workbank compared to 2021/22. For example, the unit rate of Switches & Crossing Other was £85k in 2020/21, however this increased to £130k in 2021/22 with the increase being attributed to complex projects. Due to the completion of those projects, the unit rate has decreased to be more in

line with 2020/21 levels at £88k for 2022/23. There has been an increase in the Off track unit rate, however Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore, each year there will be a different mix in the renewal work being done making it difficult to gain insight from such comparisons..

Statement 3.8: Analysis of renewals unit costs, England & Wales – continued

In £m cash prices unless stated

(3) Signalling – Signalling Full unit rates have also increased which can be attributed to projects such as Virginia Water & Ascot Resignalling Project and the Birmingham New Street Area Resignalling Project. The Virginia Water project suffered from delays and design changes which caused the project cost to increase. The Birmingham project is extremely complex with all life expired signalling being replaced and control being shifted from the Birmingham New Street Power Signal Box to the West Midlands Signalling Centre. As mentioned previously, location is also significant factor with works at Birmingham New Street likely to be more complex and harder to secure access than remote lines in the network. Signalling Partial unit increase has increased significantly in 2022/23 compared to 2021/22 mainly driven by a higher unit rate in Southern Region caused by the Victoria area signalling programme which will naturally have a higher unit rate because of the location complexity.

(4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – The unit rate from Earthworks Embankments is lower than recorded in 2021/22 and can be attributed to the majority of delivered volumes being classified as a Maintain type of intervention which are cheaper to deliver than other types of Earthworks, such as Renew and Refurb. All three of these Earthwork interventions (Maintain, Renew and Refurb) offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. The decisions around the most appropriate type of intervention in each circumstance is made by the asset management teams in each Region. Workbank mix is also a factor in the increased unit rate of Earthworks Rock Cuttings as there is a larger proportion of Renew and Refurbishment compared to Maintain. Southern recorded a significantly higher unit rate with the work bank including the CP6 Sussex Earthworks & Drainage Minor Works and Wessex CP6 Monitoring Installation and Maintenance. Both projects attracted project cost increases caused by reactive volumes and additional monitoring visits which were not anticipated in the original project cost respectively. The unit rate for Earthworks Others has decreased which can be attributed to the small sample sizes which means unit rates can be influenced more easily.

(6) Buildings – Depot plant unit rate has nearly doubled from last year's accounts with 12 of the 14 volumes delivered by the Package B LMD Light Maintenance Depot Plant Renewals project at a significantly higher unit rate than last year. Platforms (MS) unit rate increased significantly with all volumes being delivered in the Victoria Station repairs programme. Due to the central London location and added complexity the unit rate is higher than recorded in 2021/22. Lifts and Escalators (FS) unit rate has decreased with 43 more volumes being delivered in 2022/23 compared to 2021/22 whilst spending similar amounts of money. This has been mainly driven by volumes delivered in Eastern on a project focusing on Lift and Escalator fault management.

(7) Electrical Power and Fixed Plant – The unit rate of Mid-Life Refurbishment has increased but is solely driven by OLE Mid-Life Refurbishment in Eastern. Due to funding constraints, volumes were removed from the programme which reduced economies of scale and thereby drove up the overall unit rate by £0.227m per Mid-Life Refurbishment wire run and £0.055 per structural renewal. HV cables DC unit rate increased due to Kent and Sussex HV Cable Replacement schemes both experiencing project cost increases caused by work bank planning and access issues respectively. LV Cables DC unit rate has also increased which

can be attributed to inflationary pressures in the supply chain. The unit rate of Signalling Power Cables has increased, due to a higher rate in North West & Central caused by the North West Signalling Power Distribution Project. This project was approved with a higher unit rate than target and then suffered from industrial action. Track feeder switch unit rate has decreased although there was only one project in 2021/22 and 2022/23 so meaningful data analysis cannot be done with such a small sample size. LV Switchgear renewal DC unit has increased and was driven by the Kent CP6 LV Switchgear Renewal project where total project costs increased due to prolongation.

Statement 3.8: Analysis of renewals unit costs, England & Wales – continued

In £m cash prices unless stated

(8) Telecoms – There was an increase in the unit cost of Network which can be attributed to the complex Macclesfield Resignalling project which featured the reassigning of control from Macclesfield to Manchester Route Operating Centre.

England & Wales
Statement 4: Regulatory financial position
Cash prices

Regulatory asset base (RAB)
2022-23

	£m
Opening RAB (2020-21 Actual prices)	**68,356**
Indexation to 2021-22 prices	75,670
RAB additions	
Renewals expenditure	3,620
Enhancements expenditure	-
Less amortisation	(3,620)
Property Sales	(32)
Closing RAB	**75,638**

Net debt

	£m
Opening net debt	**49,875**
Income	(9,830)
Expenditure	8,801
Financing Costs - Government borrowing	733
Financing Costs - index linked debt	2,869
Financing Costs - Other	117
Corporation tax	(44)
Working capital	(139)
Closing net debt	**52,382**

Statement 4: Regulatory financial position, England & Wales

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of England & Wales Regions and how it has moved in the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £3.6bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the England & Wales Regions and how it has moved during the year.

(8) Network Rail's closing debt attributable to England & Wales Regions is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, England & Wales – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Scotland's Railway
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	601	633	(32)	-	725
Franchised track access charges	432	437	(5)	(9)	434
Other Single Till Income	48	50	(2)	(1)	44
Total Income	**1,081**	**1,120**	**(39)**	**(10)**	**1,203**
Operating expenditure					
Network operations	65	53	(12)	(12)	73
Support costs	101	90	(11)	(1)	118
Traction electricity, industry costs and rates	91	97	6	-	81
Maintenance	190	166	(24)	(24)	214
Schedule 4	67	14	(53)	(54)	32
Schedule 8	25	-	(25)	(25)	13
	539	**420**	**(119)**	**(116)**	**531**
Capital expenditure					
Renewals	426	451	25	6	533
Enhancements	179	93	(86)	(4)	178
	605	**544**	**(61)**	**2**	**711**
Risk expenditure					
Risk (Centrally-held)	-	(11)	(11)	-	-
Risk (Route-controlled)	-	94	94	-	-
Risk (Contingent asset management funding)	-	-	-	-	-
	-	**83**	**83**	**-**	**-**
Other expenditure					
Financing costs	416	223	(193)	-	311
Corporation tax	(6)	9	15	-	-
	410	**232**	**(178)**	**-**	**311**
Total expenditure	**1,554**	**1,279**	**(275)**	**(114)**	**1,553**
Total Financial Out/(under) performance				**(124)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	2,349	2,406	(57)	-
Franchised track access charges	1,566	1,630	(64)	(34)
Other Single Till Income	160	183	(23)	(22)
Total Income	**4,075**	**4,219**	**(144)**	**(56)**
Operating expenditure				
Network operations	243	209	(34)	(32)
Support costs	383	329	(54)	(32)
Traction electricity, industry costs and rates	302	334	32	-
Maintenance	726	660	(66)	(76)
Schedule 4	141	59	(82)	(85)
Schedule 8	44	23	(21)	(22)
	1,839	**1,614**	**(225)**	**(246)**
Capital expenditure				
Renewals	1,716	1,839	123	(48)
Enhancements	704	692	(12)	(2)
	2,420	**2,531**	**111**	**(50)**
Risk expenditure				
Risk (Centrally-held)	-	-	-	-
Risk (Route-controlled)	-	198	198	-
Risk (Contingent asset management funding)	-	-	-	-
	-	**198**	**198**	**-**
Other expenditure				
Financing costs	1,078	895	(183)	-
Corporation tax	-	19	19	-
	1,078	**914**	**(164)**	**-**
Total expenditure	**5,337**	**5,257**	**(80)**	**(296)**
Total Financial Out/(under) performance				**(352)**

Statement 1: Summary of regulatory financial performance, Scotland’s Railway

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Scotland Railway's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Scotland’s Railway’s net expenditure (Total income less Total expenditure) was around £0.3bn higher than the regulatory baseline this year and £0.2bn higher for the control period to date. The higher net expenditure this year is mostly due to higher financing costs.

(2) This statement also shows that Network Rail Scotland has recognised financial underperformance of £124m this year and £352m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, lower other single till income, impact of industrial action and higher maintenance expenditure.

(3) Income – Grant income in the year was slightly lower than the regulatory baseline as higher Network grants more than offset a lower allocation of Internal financing grants. The former was due to differences in phasing of activity being undertaken compared to that assumed in the baseline whilst the latter is due to interest rates being lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Grant income is lower than the previous year. This is mostly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year’s November CPI (i.e. November 2021). Variances in Grant income is outside of the scope of financial performance. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the control period to date is lower than the regulatory baseline due to lower variable usage charge and traction electricity charge, as fewer trains ran in earlier years due to the Covid-19 pandemic and the prices operators pay for traction electricity remains lower than expected. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the control period to date is lower than the regulatory expectation due to the impact of Covid-19 on property income. Social distancing restrictions, government lockdowns and advice on working from home reduced rental income across the property estate, including retail units at managed stations. Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Scotland's Railway – continued

In £m cash prices unless stated

(6) Operating expenditure – Network operations costs were higher than the regulatory expectation this year and the control period to date mainly from increased investment to improve the services for the travelling public. In addition, the control period to date costs include Scotland's Railway's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff and extra costs for additional cleaning requirements at managed stations. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. The prior year also included higher Covid-19 resilience costs. Network Operations costs are set out in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are higher than the regulatory baseline for similar reasons but also includes Covid-19 related expenditure. Costs appear lower than the prior year comparative. This is partly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year mainly due to lower Business rates as the government postponed quinquennial increases in the wake of Covid-19. Costs are lower in the control period to date due to a combination of the aforementioned lower Business rates this year along with lower traction electricity charges. These are offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year reflecting higher electricity prices. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year once more including additional investment in devegetation and other performance improvement schemes, increased reactive maintenance activity and inflationary pressures on materials prices. Costs appear lower than the prior year comparative. This is mostly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are discussed in more detail in Statement 3.5.

Statement 1: Summary of regulatory financial performance, Scotland's Railway – continued

In £m cash prices unless stated

(11) Operating expenditure – Schedule 8 costs are significantly adverse to the regulatory baseline this year, as train performance was worse than target. Increasingly volatile weather in Scotland continues to affect the ability to run the timetable, whilst industrial action this year and a return of passengers following Covid also impacted performance. The control period to date is now adverse as the underperformance reported this year has more than offset benefits from reduced passenger numbers during Covid. Costs are higher than the previous year reflecting the issues faced this year as noted above. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is slightly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. Investment was lower than the prior year. This reduction was expected in the regulatory baseline and includes reduced investment in Track, Civils and Earthworks. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year is higher than the regulatory baseline this year as mainly due to Transport Scotland redefining the scope, outputs and associated funding for the projects on Scotland's Railway. The control period to date investment is now broadly in line with the regulatory baseline. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of Transport Scotland. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway
Statement 2: Analysis of income

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	305	302	3	-	310
Variable usage charge	20	29	(9)	(9)	22
Electrification asset usage charge	2	2	-	-	2
Capacity charge	-	-	-	-	-
Open access income	-	-	-	-	1
Managed stations long term charge	8	8	-	-	8
Franchised stations long term charge	22	22	-	-	24
Traction electricity charges	47	47	-	-	38
Schedule 4 access charge supplement	11	11	-	-	13
	415	**421**	**(6)**	**(9)**	**418**
Other single till income					
Freight income					
Freight variable usage charge	3	3	-	-	3
Freight other income	-	-	-	-	-
	3	**3**	**-**	**-**	**3**
Stations income					
Managed stations qualifying expenditure	8	10	(2)	(2)	8
Franchised stations lease income	2	2	-	-	2
	10	**12**	**(2)**	**(2)**	**10**
Facility and financing charges					
Facility charges	1	1	-	-	1
	1	**1**	**-**	**-**	**1**
Property income					
Property rental	14	19	(5)	(5)	11
Property sales	-	1	(1)	(1)	-
	14	**20**	**(6)**	**(6)**	**11**
Depots Income	**17**	**8**	**9**	**9**	**16**
Other income	**1**	**-**	**1**	**1**	**1**
Freight traction electricity charges	**-**	**1**	**(1)**	**-**	**1**
Total other single till income	**46**	**45**	**1**	**2**	**43**
Total Regionally-managed income	**461**	**466**	**(5)**	**(7)**	**461**
Centrally-managed income					
Network grant	477	466	11	-	581
Internal financing grant	66	94	(28)	-	68
External financing grant	55	55	-	-	66
BTP grant	9	9	-	-	10
Corporation tax grant	(6)	9	(15)	-	-
Infrastructure cost charges	14	13	1	-	13
Schedule 4 access charge supplement	3	3	-	-	3
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	618	**649**	**(31)**	**-**	**741**
Other single till income					
Property income					
Property rental	2	4	(2)	(2)	1
Property sales	-	1	(1)	(1)	-
	2	**5**	**(3)**	**(3)**	**1**
Total other single till income	**2**	**5**	**(3)**	**(3)**	**1**
Total centrally-managed income	**620**	**654**	**(34)**	**(3)**	**742**
Total income	**1,081**	**1,120**	**(39)**	**(10)**	**1,203**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,109	1,113	(4)	-
Variable usage charge	81	111	(30)	(30)
Electrification asset usage charge	8	9	(1)	(1)
Capacity charge	-	-	-	-
Open access income	1	1	-	-
Managed stations long term charge	29	31	(2)	(3)
Franchised stations long term charge	86	86	-	-
Traction electricity charges	81	93	(12)	-
Schedule 4 access charge supplement	46	46	-	-
	1,441	**1,490**	**(49)**	**(34)**
Other single till income				
Freight income				
Freight variable usage charge	11	11	-	-
Freight other income	-	-	-	-
	11	**11**	**-**	**-**
Stations income				
Managed stations qualifying expenditure	29	37	(8)	(8)
Franchised stations lease income	8	7	1	-
	37	**44**	**(7)**	**(8)**
Facility and financing charges				
Facility charges	4	4	-	1
	4	**4**	**-**	**1**
Property income				
Property rental	29	54	(25)	(25)
Property sales	1	1	-	(1)
	30	**55**	**(25)**	**(26)**
Depots Income	**50**	**31**	**19**	**19**
Other income	**4**	**1**	**3**	**4**
Freight traction electricity charges	**1**	**2**	**(1)**	**-**
Total other single till income	**137**	**148**	**(11)**	**(10)**
Total Regionally-managed income	**1,578**	**1,638**	**(60)**	**(44)**
Centrally-managed income				
Network grant	1,805	1,766	39	-
Internal financing grant	262	337	(75)	-
External financing grant	248	251	(3)	-
BTP grant	34	34	-	-
Corporation tax grant	-	18	(18)	-
Infrastructure cost charges	50	49	1	-
Schedule 4 access charge supplement	11	11	-	-
Traction electricity charges	64	80	(16)	-
Freight traction electricity charges	1	1	-	-
	2,475	**2,547**	**(72)**	**-**
Other single till income				
Property income				
Property rental	20	28	(8)	(9)
Property sales	2	6	(4)	(3)
	22	**34**	**(12)**	**(12)**
Total other single till income	**22**	**34**	**(12)**	**(12)**
Total centrally-managed income	**2,497**	**2,581**	**(84)**	**(12)**
Total income	**4,075**	**4,219**	**(144)**	**(56)**

Statement 2: Analysis of income, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is lower than the CP6 baseline in the current year mainly due to lower Internal financing grant receipts. This has also contributed to the lower income in the control period to date as have lower Variable usage charge and Property income received, arising from impact of Covid-19. Income is lower than the previous year mainly due to less Network grant recognised this year.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, due to a combination of the on-going impact of Covid recovery on service levels and property income, partly offset by continued extra depot income. The control period to date shortfall arises for largely the same reasons, as well as reduced Traction electricity income, which is offset by reduced electricity costs paid by Network Rail. Income is broadly similar to the previous year.

(2) Infrastructure cost charges - fixed charge income was broadly in line with the regulatory expectation this year. The control period to date continues to show a slight shortfall, mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income appears lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

(3) Variable usage charge income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, most operators in Scotland are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(4) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise, or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In 2021/22, Network Rail has allocated traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases this year, some had not pre-purchased future requirements and were instead subject to the sharp increases in market prices seen this year. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. Unsurprisingly, income in the year and the control period to date is broadly in line with the regulatory baseline.

(6) Managed stations qualifying expenditure - income is lower than the regulatory assumption this year, previous year, and the control period to date. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.

(7) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

(8) Depots income – revenue is higher than the regulator's assumptions this year continuing the trend from earlier years of the control period due to additional services offered to operators.

Centrally-managed income

(1) Aggregate Centrally-managed income is lower than the CP6 baseline this year and the control period to date, mainly due to lower Internal financing grant income. Income is lower than the previous year mainly due to lower grant income.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with Transport Scotland for Network grant payments and also with DfT to pay for Scotland's Railway's share of Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is slightly higher than the regulatory baseline this year and the control period to date. Income is lower than the previous year due to the phasing of activity in the region and also due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. As agreed with the regulator, variances in this category are outside the scope of the financial performance assessment.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(8) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

Scotland's Railway
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	63	51	(12)	(12)	71
Maintenance	177	159	(18)	(20)	207
Support costs	30	18	(12)	(12)	41
Traction electricity, industry costs and rates	86	93	7	-	77
Schedule 4	67	12	(55)	(56)	32
Schedule 8	25	-	(25)	(25)	13
	448	**333**	**(115)**	**(125)**	**441**
Capital expenditure					
Renewals	382	399	17	8	478
Enhancements	179	93	(86)	(4)	178
	561	**492**	**(69)**	**4**	**656**
Total Regionally-managed expenditure	**1,009**	**825**	**(184)**	**(121)**	**1,097**
Centrally-managed expenditure					
Operating expenditure					
Network operations	2	2	-	-	2
Maintenance	13	7	(6)	(4)	7
Support costs	71	72	1	11	77
Traction electricity, industry costs and rates	5	4	(1)	-	4
Schedule 4	-	2	2	2	-
Schedule 8	-	-	-	-	-
	91	**87**	**(4)**	**9**	**90**
Capital expenditure					
Renewals	44	52	8	(2)	55
Enhancements	-	-	-	-	-
	44	**52**	**8**	**(2)**	**55**
Risk Expenditure	**-**	**83**	**83**	**-**	**-**
Other					
Financing costs	416	223	(193)	-	311
Taxation	(6)	9	15	-	-
	410	**232**	**(178)**	**-**	**311**
Total centrally-managed expenditure	**545**	**454**	**(91)**	**7**	**456**
Total expenditure	**1,554**	**1,279**	**(275)**	**(114)**	**1,553**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	235	201	(34)	(33)
Maintenance	693	630	(63)	(72)
Support costs	134	80	(54)	(53)
Traction electricity, industry costs and rates	155	173	18	-
Schedule 4	140	51	(89)	(92)
Schedule 8	52	21	(31)	(31)
	1,409	**1,156**	**(253)**	**(281)**
Capital expenditure				
Renewals	1,525	1,623	98	(56)
Enhancements	691	692	1	(2)
	2,216	**2,315**	**99**	**(58)**
Total Regionally-managed expenditure	**3,625**	**3,471**	**(154)**	**(339)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	8	8	-	1
Maintenance	33	30	(3)	(4)
Support costs	249	249	-	21
Traction electricity, industry costs and rates	147	161	14	-
Schedule 4	1	8	7	7
Schedule 8	(8)	2	10	9
	430	**458**	**28**	**34**
Capital expenditure				
Renewals	191	216	25	8
Enhancements	13	-	(13)	-
	204	**216**	**12**	**8**
Risk Expenditure	**-**	**198**	**198**	**-**
Other				
Financing costs	1,078	895	(183)	-
Taxation	-	19	19	-
	1,078	**914**	**(164)**	**-**
Total centrally-managed expenditure	**1,712**	**1,786**	**74**	**42**
Total expenditure	**5,337**	**5,257**	**(80)**	**(297)**

Statement 3: Analysis of expenditure, Scotland's Railway

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year including additional financing costs and impact of industrial action. The control period to date position is broadly in line with the regulatory expectation. The financial underperformance recognised this year and for the Control Period to date primarily relates to underperformance realised in both Operating and Capital expenditure categories. A significant amount of this underperformance is due to the impact of Covid-19, industrial action and higher like-for-like costs within the capital portfolio.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline mainly due to impact of industrial action and train performance challenges. Costs in the control period to date are higher than the regulatory baseline as higher operating costs and performance regime costs have been partly offset by deferral of capital projects. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has more than offset the higher financing costs experienced this year. Savings have also been made across a number of central functions. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Scotland's Railway
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	33	29	(4)	(4)	37
Operations Management	4	3	(1)	(1)	4
Controllers	5	5	-	-	6
Electrical control room operators	2	1	(1)	(1)	2
	44	**38**	**(6)**	**(6)**	**49**
Non signaller expenditure					
Mobile operations managers	4	3	(1)	(1)	4
Managed stations	6	6	-	-	7
Performance	7	2	(5)	(5)	8
Other	2	2	-	-	3
Total Regionally-managed Operations expenditure	**63**	**51**	**(12)**	**(12)**	**71**
Centrally-managed Operations expenditure					
Network Services	2	2	-	-	2
Total centrally-managed Operations expenditure	**2**	**2**	**-**	**-**	**2**
Total operations expenditure	**65**	**53**	**(12)**	**(12)**	**73**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	127	119	(8)	(8)
Operations Management	15	10	(5)	(5)
Controllers	19	19	-	-
Electrical control room operators	8	4	(4)	(4)
	169	**152**	**(17)**	**(17)**
Non signaller expenditure				
Mobile operations managers	14	12	(2)	(2)
Managed stations	26	24	(2)	(2)
Performance	18	7	(11)	(11)
Other	8	6	(2)	(1)
Total Regionally-managed Operations expenditure	**235**	**201**	**(34)**	**(33)**
Centrally-managed Operations expenditure				
Network Services	8	8	-	1
Total centrally-managed Operations expenditure	**8**	**8**	**-**	**1**
Total operations expenditure	**243**	**209**	**(34)**	**(32)**

Statement 3.1: Analysis of operations expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year and the control period to date mainly from increased investment to improve the services for the travelling public. In addition, the control period to date costs include Scotland's Railway's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff and extra costs for additional cleaning requirements at managed stations. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. The prior year also included higher Covid-19 resilience costs.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation for the control period to date. This is mainly due to increases in staff costs to provide extra resilience and ensure the continuation of the railway's function during the Covid-19 pandemic, resulting in an underperformance to date in the control period. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. The prior year also included higher Covid-19 resilience costs.

(3) Performance – costs are higher than the regulatory baseline for both the current year and the control period to date due to greater investment in schemes to improve services for the travelling public. Costs are consistent with the previous year.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date, as well as the previous year.

Scotland's Railway
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	87	79	(8)	(7)	101
Signalling & Telecoms	27	20	(7)	(7)	30
Civils	24	28	4	(6)	37
Buildings	14	6	(8)	(1)	8
Electrical power and fixed plant	13	10	(3)	(3)	14
Other network operations	12	16	4	4	17
	177	**159**	**(18)**	**(20)**	**207**
Centrally-managed maintenance expenditure					
Telecoms	3	4	1	1	2
Route Services - Asset Information	3	4	1	1	5
STE Maintenance	-	-	-	-	1
Property	-	-	-	-	-
Route Services - Other	6	(1)	(7)	(5)	(1)
Other	1	-	(1)	(1)	-
	13	**7**	**(6)**	**(4)**	**7**
Total maintenance expenditure	**190**	**166**	**(24)**	**(24)**	**214**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	340	318	(22)	(20)
Signalling & Telecoms	102	79	(23)	(22)
Civils	106	110	4	(14)
Buildings	35	23	(12)	(5)
Electrical power and fixed plant	49	38	(11)	(11)
Other network operations	61	62	1	-
	693	**630**	**(63)**	**(72)**
Centrally-managed maintenance expenditure				
Telecoms	9	14	5	5
Route Services - Asset Information	15	15	-	(1)
STE Maintenance	2	2	-	(1)
Property	-	-	-	-
Route Services - Other	6	(1)	(7)	(7)
Other	1	-	(1)	-
	33	**30**	**(3)**	**(4)**
Total maintenance expenditure	**726**	**660**	**(66)**	**(76)**

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, maintenance costs are higher than the regulatory baseline this year and the control period to date owing to additional expenses in both Regionally-managed and Centrally-managed areas as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year once more including additional investment in devegetation and other performance improvement schemes as well as increased reactive maintenance activity. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Track – track maintenance costs are traditionally the largest component of Scotland's Railway's maintenance costs. Costs are higher than the regulatory baseline continuing the trend from earlier years of the control period. Additional investment this year has been undertaken on devegetation works and other performance improvement schemes. Higher costs in the control period to date include Covid-19 resilience and deferral of intelligent infrastructure efficiencies in 2021/22. Costs are lower than the previous year which included the aforementioned Covid resilience, headcount restraint and changes in standards as part of the maintenance modernisation programme and the significant uplift to the prior year comparative as a result of high November CPI.

(3) Signalling & telecoms – Spend in the control period to date is higher than the regulatory expectation as the increases this year compounded extra spend earlier in the control period due to Covid-19 resilience and compliance investment. This included additional staff costs and the procurement of Covid-19 secure PPE. There has also been additional spend in performance related schemes, particularly relating to rapid response teams. Costs are lower than the previous year which included the aforementioned Covid resilience, headcount restraint and changes in standards as part of the maintenance modernisation programme and the significant uplift to the prior year comparative as a result of high November CPI

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

(4) Civils – costs were lower than the regulatory baseline this year, mainly due to less reactive maintenance than the baseline assumed which has been offset by increased CEFA costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances arising from these interventions are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs for the control period to date are lower than the regulatory baseline, but this has mainly been due to the same factors as the current year variance and hence financial underperformance has been reported overall. Costs are lower this year compared to 2021/22 reflecting the aforementioned inherent volatility of this category of costs.

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances arising from these interventions are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Control Period to date spend is higher than the regulatory baseline with extra costs this year allied to higher reactive maintenance costs in previous years.

(6) Electrical power and fixed plant – costs are higher than the regulatory baseline this year, continuing the trend from earlier years in the control period. This has been due to additional teams and resource required to maintain the newly electrified parts of the network in Scotland's Railway.

(7) Other network operations – costs this year are favourable to the regulatory baseline which has brought the control period to date position in line with the regulatory expectation.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the control period to date baseline mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

(3) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

Scotland's Railway
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	4	3	(1)	(1)	6
Finance	5	2	(3)	(3)	3
Accommodation	8	10	2	2	11
Utilities	9	4	(5)	(5)	9
Other	4	(1)	(5)	(5)	12
	30	**18**	**(12)**	**(12)**	**41**
Centrally-managed Support costs					
Finance & Legal	4	5	1	1	6
Communications	2	2	-	-	2
Human Resources	2	3	1	1	3
System Operator	6	9	3	3	6
Property	2	2	-	-	2
Telecoms	8	6	(2)	(2)	9
Network Services	-	-	-	-	-
Safety Technical and Engineering	5	6	1	1	7
RS - IT and Business Services	13	12	(1)	(1)	15
RS - Asset Information	2	3	1	(6)	2
RS - Directorate	-	3	3	3	4
Other corporate functions	-	-	-	4	2
Insurance	-	6	6	6	3
OPEX/CAPEX Adjustment	21	8	(13)	-	14
Group costs	6	7	1	1	2
	71	**72**	**1**	**11**	**77**
Total support costs	**101**	**90**	**(11)**	**(1)**	**118**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	16	10	(6)	(5)
Finance	11	8	(3)	(3)
Accommodation	43	45	2	2
Utilities	31	16	(15)	(15)
Other	33	1	(32)	(32)
	134	**80**	**(54)**	**(53)**
Centrally-managed Support costs				
Finance & Legal	16	20	4	4
Communications	7	7	-	-
Human Resources	10	11	1	-
System Operator	19	29	10	11
Property	6	3	(3)	(3)
Telecoms	28	30	2	1
Network Services	4	6	2	2
Safety Technical and Engineering	20	22	2	3
RS - IT and Business Services	49	46	(3)	(2)
RS - Asset Information	7	13	6	(1)
RS - Directorate	10	10	-	(1)
Other corporate functions	6	7	1	-
Insurance	9	18	9	10
OPEX/CAPEX Adjustment	60	29	(31)	-
Group costs	(2)	(2)	-	(3)
	249	**249**	**-**	**21**
Total support costs	**383**	**329**	**(54)**	**(32)**

Statement 3.3: Analysis of support costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year and in the control period to date mainly due to additional costs in Regions as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level and also lower Regionally-managed costs this year.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year due to the implementation of the PPF re-organisation programme and higher utilities costs. This, along with the extra cost incurred in 2020/21 surrounding Covid-19, buildings costs from not purchasing an office in the final days of CP5 and legal claims has largely contributed to the adverse variance for the control period to date. Costs are lower than the previous year which included more of these one-off costs experienced in the control period to date.

(2) Human resources – costs in the current year are higher than the baseline expectation, however lower than the previous year. Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users, has resulted in more local Human Resources staff to support this initiative. This narrative is reflected in the higher than expected Control Period to date cost.

(3) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs for the control period to date are higher due to higher utility costs incurred earlier in the control period reflecting higher prices compared to assumptions in the CP6 regulatory baselines.

(4) Other – costs were higher than the regulatory baseline this year reflecting implementing new PPF organisational design which has led to additional resources in the Region in excess of the amount included in the original regulatory baseline. Costs in the control period to date are higher than the regulatory baseline reflecting these organisational changes but also higher buildings costs from not purchasing an office in the final days of CP5 and compensation costs and legal fees for events including Stonehaven. Costs are lower than the previous year which included recognition of some one-off legal costs and additional office costs.

Statement 3.3: Analysis of support costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year and in the control period to date mainly due to additional costs in Regions as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level and also lower Regionally-managed costs this year.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year due to the implementation of the PPF re-organisation programme and higher utilities costs. This, along with the extra cost incurred in 2020/21 surrounding Covid-19, buildings costs from not purchasing an office in the final days of CP5 and legal claims has largely contributed to the adverse variance for the control period to date. Costs are lower than the previous year which included more of these one-off costs experienced in the control period to date.

(2) Human resources – costs in the current year are higher than the baseline expectation and the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. This narrative is reflected in the higher than expected Control Period to date cost.

(3) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs for the control period to date are higher due to higher utility costs incurred earlier in the control period reflecting higher prices compared to assumptions in the CP6 regulatory baselines.

(4) Other – costs were higher than the regulatory baseline this year reflecting implementing new PPF organisational design which has led to additional resources in the Region in excess of the amount included in the original regulatory baseline. Costs in the control period to date are higher than the regulatory baseline reflecting these organisational changes but also higher buildings costs from not purchasing an office in the final days of CP5 and compensation costs and legal fees for events including Stonehaven. Costs are lower than the previous year which included recognition of some one-off legal costs and additional office costs.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are lower than the regulatory assumption this year following savings in a number of areas as a result of workforce reform and reduced insurance expenses. These items have been partly offset by a greater number of projects have been classified as opex. This creates an offsetting saving in Statement 3.6 Renewals. Costs are lower than the previous year. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, workforce reform savings across a number of functions have helped offset the aforementioned increase in the number of projects qualifying as opex.

(2) Finance & legal – costs for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) System Operator – costs are lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(4) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(5) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(6) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

(7) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(8) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(9) Opex/capex Adjustment – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(10)Group – costs are lower than the regulatory baseline this year. This includes a rephasing of the regulatory baseline to adjust the control period to date position which is now broadly in line with the regulatory assumptions as higher workforce modernisation implementation costs have been mostly offset by savings from commercial settlements. Costs are higher than the previous year. Costs are higher than the previous year when a credit was recognised form the aforementioned workforce reform savings which have now been distributed to the other parts of the business.

Scotland's Railway
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	49	48	(1)	-	39
Business rates	28	36	8	-	28
British transport police costs	9	9	-	-	10
	86	**93**	**7**	**-**	**77**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	3	2	(1)	-	3
RDG membership costs	1	1	-	-	-
RSSB costs	1	1	-	-	1
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	5	**4**	**(1)**	**-**	**4**
Total traction electricity, industry costs and rates	**91**	**97**	**6**	**-**	**81**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	84	94	10	-
Business rates	53	62	9	-
British transport police costs	18	17	(1)	-
	155	**173**	**18**	**-**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	65	81	16	-
Business rates	48	49	1	-
British transport police costs	16	16	-	-
ORR licence fee and railway safety levy	11	10	(1)	-
RDG membership costs	2	1	(1)	-
RSSB costs	5	4	(1)	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	147	**161**	**14**	**-**
Total traction electricity, industry costs and rates	**302**	**334**	**32**	**-**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year mainly due to lower Business rates. As well as this in-year saving, the control period to date saving is mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. These costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Whilst costs this year are consistent with the regulatory expectation, they are lower in the control period to date reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to increased market prices for electricity, as widely-publicised and experienced across the economy. The overall impact on train operators' costs has been limited by train operator decisions to forward purchase electricity requirements when market prices were lower. When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates - from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. This is also driving the control period to date benefit. Costs are lower than the previous year. Whilst in cash terms the costs have increased, the inflationary uplift factor was lower than the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21

(4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	67	12	(55)	(56)	32
Access charge supplement Income	(11)	(11)	-	-	(13)
Net (income)/cost	**56**	**1**	**(55)**	**(56)**	**19**
Schedule 8					
Performance element income	25	-	(25)	(25)	-
Performance element costs	-	-	-	-	13
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**25**	**-**	**(25)**	**(25)**	**13**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	2	2	2	-
Access charge supplement Income	(3)	(3)	-	-	(3)
Net (income)/cost	**(3)**	**(1)**	**2**	**2**	**(3)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	-	-	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**-**	**-**	**-**	**-**	**-**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	67	14	(53)	(54)	32
Access charge supplement Income	(14)	(14)	-	-	(16)
Net (income)/cost	**53**	**-**	**(53)**	**(54)**	**16**
Schedule 8					
Performance element income	25	-	(25)	(25)	-
Performance element costs	-	-	-	-	13
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**25**	**-**	**(25)**	**(25)**	**13**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	140	51	(89)	(92)
Access charge supplement Income	(46)	(46)	-	-
Net (income)/cost	**94**	**5**	**(89)**	**(92)**
Schedule 8				
Performance element income	27	-	(27)	(27)
Performance element costs	25	21	(4)	(4)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**52**	**21**	**(31)**	**(31)**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1	8	7	7
Access charge supplement Income	(11)	(11)	-	-
Net (income)/cost	**(10)**	**(3)**	**7**	**7**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(8)	2	10	9
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(8)**	**2**	**10**	**9**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	141	59	(82)	(85)
Access charge supplement Income	(57)	(57)	-	-
Net (income)/cost	**84**	**2**	**(82)**	**(85)**
Schedule 8				
Performance element income	27	-	(27)	(27)
Performance element costs	17	23	6	5
Access charge supplement Income	-	-	-	-
Net (income)/cost	**44**	**23**	**(21)**	**(22)**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland’s Railway

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Overall Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, which has negated some of the savings made earlier in the control period, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are significantly adverse to the regulatory baseline this year, as train performance was worse than target. Increasingly volatile weather in Scotland continues to affect the ability to run the timetable, whilst industrial action this year and a return of passengers following Covid also impacted performance. The control period to date is now adverse as the underperformance reported this year has more than offset benefits from reduced passenger numbers during Covid.

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period including the impact of several individual storms in 2021/22 (Arwen, Barra, Dudley, Eunice, and Franklin). Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are higher than last year’s actuals owing to the aforementioned disruption caused by industrial action this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway – continued

In £m cash prices unless stated

(2) Schedule 8 costs are adverse against the regulatory baseline this year due to continued impact of weather upon Scotland's Railway's ability to run the timetable. This was augmented by industrial action this year disrupting services, a higher than expected number of asset failures and a return of passengers to the network following Covid. The financial underperformance this year augments that reported in earlier years of the control period. 2021/22 train performance suffered from inclement weather in Scotland, especially the storms experienced throughout the winter months. Underperformance has increased since the previous year reflecting industrial action disrupting services, a higher than expected number of asset failures and a return of passengers to the network following Covid.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Along with fewer significant events compared to the average expected level, the control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20.

(3) Schedule 8 – this year's cost is broadly in line with the regulatory baseline. The position is favourable in the control period to date as there was a favourable settlement relating to a commercial claim leading to a schedule 8 inflow earlier in the control period.

Scotland's Railway
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	28	45	17	-	48
PL Replace Partial	27	21	(6)	-	31
PL High Output	18	21	3	-	24
PL Refurbishment	5	3	(2)	-	8
PL Track Slab Track	6	7	1	-	7
Switches & Crossing - Replace	14	22	8	-	27
Switches & Crossing - Other	8	6	(2)	-	8
Off Track	22	10	(12)	-	12
Track Other	17	17	-	-	20
	145	**152**	**7**	**15**	**185**
Signalling					
Signalling Full	11	30	19	-	7
Signalling Partial	33	2	(31)	-	29
Signalling Refurb	20	25	5	-	19
Level crossings	2	8	6	-	7
Minor works	15	17	2	-	14
Other	-	-	-	-	-
	81	**82**	**1**	**10**	**76**
Civils					
Underbridges	37	34	(3)	-	37
Overbridges	3	17	14	-	13
Major structures	2	1	(1)	-	9
Tunnels	5	2	(3)	-	8
Minor works	9	19	10	-	14
Other	3	9	6	-	11
	59	**82**	**23**	**6**	**92**
Earthworks					
Earthworks - Embankments	4	6	2	-	13
Earthworks - Soil Cuttings	20	16	(4)	-	29
Earthworks - Rock Cuttings	7	5	(2)	-	9
Earthworks - Other	5	3	(2)	-	2
	36	**30**	**(6)**	**(14)**	**53**
Buildings					
Managed stations	-	2	2	-	2
Franchised stations	12	21	9	-	19
Light maint depots	1	1	-	-	2
Depot plant	-	1	1	-	-
Lineside buildings	1	-	(1)	-	1
MDU buildings	1	-	(1)	-	-
Other	1	-	(1)	-	1
	16	**25**	**9**	**(1)**	**25**
Electrical power and fixed plant					
AC distribution	1	3	2	-	1
Overhead Line	8	4	(4)	-	21
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	5	4	(1)	-	2
Other	11	1	(10)	-	6
Fixed plant	1	2	1	-	5
	26	**14**	**(12)**	**(2)**	**35**
Drainage					
Drainage (Track)	9	4	(5)	-	9
Drainage (Earthworks)	5	3	(2)	-	-
Drainage (Resilience)	2	1	(1)	-	-
	16	**8**	**(8)**	**(6)**	**9**
Property					
Property	3	6	3	-	3
	3	**6**	**3**	**-**	**3**
Total Regionally-managed renewals expenditure	**382**	**399**	**17**	**8**	**478**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	3	-	(3)	-	-
	3	**-**	**(3)**	**(3)**	**-**
Telecoms					
Operational communications	-	2	2	-	2
Network	1	3	2	-	1
SISS	2	2	-	-	3
Projects and other	-	-	-	-	1
Non-route capital expenditure	7	7	-	-	8
	10	**14**	**4**	**(2)**	**15**
Wheeled plant and machinery					
High output	1	2	1	-	2
Incident response	-	-	-	-	-
Infrastructure monitoring	-	2	2	-	-
Intervention	1	3	2	-	2
Materials delivery	1	3	2	-	1
On track plant	5	7	2	-	3
Seasonal	1	3	2	-	-
Other	2	-	(2)	-	3
	11	**20**	**9**	**-**	**11**
Route Services					
Business Improvement	5	-	(5)	-	6
IT Renewals	2	8	6	-	3
Asset Information	1	-	(1)	-	1
Other	-	2	2	-	1
	8	**10**	**2**	**-**	**11**
STE Renewals					
Intelligent infrastructure	7	6	(1)	-	9
Faster Isolations	2	2	-	-	3
Centrally Managed Signalling Costs	1	1	-	-	1
Research and development	5	7	2	-	5
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	-	1	1	-	2
Small plant	1	1	-	-	-
Other	5	-	(5)	-	9
	21	**20**	**(1)**	**-**	**29**
Property					
Property	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Other renewals					
ETCS	-	2	2	-	-
Digital Railway	2	2	-	-	2
Civils & Drainage - Insurance Fund	1	3	2	3	-
Buildings - Insurance Fund	1	2	1	-	-
OPEX/CAPEX Adjustment	(21)	(8)	13	-	(14)
Phasing overlay	-	(17)	(17)	-	-
System Operator	3	3	-	-	2
Other renewals	5	1	(4)	-	(1)
	(9)	**(12)**	**(3)**	**3**	**(11)**
Total centrally-managed renewals expenditure	**44**	**52**	**8**	**(2)**	**55**
TOTAL RENEWALS EXPENDITURE	**426**	**451**	**25**	**6**	**533**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	167	184	17	-
PL Replace Partial	118	98	(20)	-
PL High Output	65	108	43	-
PL Refurbishment	21	11	(10)	-
PL Track Slab Track	24	13	(11)	-
Switches & Crossing - Replace	82	84	2	-
Switches & Crossing - Other	27	35	8	-
Off Track	51	39	(12)	-
Track Other	62	66	4	-
	617	**638**	**21**	**(13)**
Signalling				
Signalling Full	23	88	65	-
Signalling Partial	110	88	(22)	-
Signalling Refurb	52	86	34	-
Level crossings	19	35	16	-
Minor works	48	64	16	-
Other	-	-	-	-
	252	**361**	**109**	**(19)**
Civils				
Underbridges	141	129	(12)	-
Overbridges	30	53	23	-
Major structures	28	22	(6)	-
Tunnels	13	13	-	-
Minor works	41	54	13	-
Other	33	31	(2)	-
	286	**302**	**16**	**5**
Earthworks				
Earthworks - Embankments	32	22	(10)	-
Earthworks - Soil Cuttings	77	66	(11)	-
Earthworks - Rock Cuttings	29	21	(8)	-
Earthworks - Other	8	10	2	-
	146	**119**	**(27)**	**(6)**
Buildings				
Managed stations	4	9	5	-
Franchised stations	65	72	7	-
Light maint depots	6	6	-	-
Depot plant	-	1	1	-
Lineside buildings	7	1	(6)	-
MDU buildings	3	-	(3)	-
Other	2	-	(2)	-
	87	**89**	**2**	**(6)**
Electrical power and fixed plant				
AC distribution	5	5	-	-
Overhead Line	33	11	(22)	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	13	22	9	-
Other	18	5	(13)	-
Fixed plant	10	9	(1)	-
	79	**52**	**(27)**	**(5)**
Drainage				
Drainage (Track)	28	33	5	-
Drainage (Earthworks)	21	9	(12)	-
Drainage (Resilience)	2	4	2	-
	51	**46**	**(5)**	**(12)**
Property				
Property	7	16	9	-
	7	**16**	**9**	**-**
Total Regionally-managed renewals expenditure	**1,525**	**1,623**	**98**	**(56)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	**-**	**(5)**	**(3)**
Telecoms				
Operational communications	4	11	7	-
Network	4	10	6	-
SISS	7	15	8	-
Projects and other	2	-	(2)	-
Non-route capital expenditure	31	31	-	-
	48	**67**	**19**	**(3)**
Wheeled plant and machinery				
High output	9	10	1	-
Incident response	-	-	-	-
Infrastructure monitoring	-	6	6	-
Intervention	4	10	6	-
Materials delivery	3	14	11	-
On track plant	11	16	5	-
Seasonal	2	8	6	-
Other	7	1	(6)	-
	36	**65**	**29**	**-**
Route Services				
Business Improvement	27	15	(12)	-
IT Renewals	13	24	11	-
Asset Information	3	3	-	-
Other	2	3	1	-
	45	**45**	**-**	**-**
STE Renewals				
Intelligent infrastructure	25	20	(5)	-
Faster Isolations	9	17	8	-
Centrally Managed Signalling Costs	3	3	-	-
Research and development	18	20	2	-
Integrated Management System (Incl. BCR)	-	6	6	-
Other National SCADA Programmes	8	8	-	-
Small plant	2	4	2	-
Other	20	5	(15)	-
	85	**83**	**(2)**	**-**
Property				
Property	3	3	-	-
	3	**3**	**-**	**-**
Other renewals				
ETCS	4	11	7	(1)
Digital Railway	4	(2)	(6)	-
Civils & Drainage - Insurance Fund	3	10	7	8
Buildings - Insurance Fund	1	8	7	-
OPEX/CAPEX Adjustment	(59)	(29)	30	-
Phasing overlay	-	(57)	(57)	-
System Operator	7	9	2	-
Other renewals	9	3	(6)	7
	(31)	**(47)**	**(16)**	**14**
Total centrally-managed renewals expenditure	**191**	**216**	**25**	**8**
TOTAL RENEWALS EXPENDITURE	**1,716**	**1,839**	**123**	**(48)**

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year, but remains below the regulatory expectation for the control period to date. Expenditure is lower than the prior year mainly due to lower regionally-managed expenditure. This includes reduced investment in Track, Civils and Earthworks. Industrial action and train performance issues necessitated a reprioritisation of the funds made available by Transport Scotland.

Regionally-managed renewals

(1) Total Regionally-managed renewals were slightly lower than the regulatory baseline this year but remain lower in the control period to date. Financial outperformance has been recognised this year which has mitigated some of the underperformance reported in previous years. Expenditure was lower than the previous year. This includes reduced investment in Track, Civils and Earthworks. Industrial action and train performance issues necessitated a reprioritisation of the funds made available by Transport Scotland.

(2) Track – expenditure was slightly lower than the regulatory baseline this year and in the control period to date. This is most notable in High output where volumes have decreased significantly as a result of plant failure, safety stand downs and possession productivity lost from weather and industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded Scotland's Railway from utilising this track volume delivery method. All of these factors have contributed to financial underperformance. Financial underperformance has also been experienced from Covid-19 impacts earlier in the control period and inflationary pressures on materials prices. However, financial outperformance is reported this year which includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Benefits have also arisen from improved workbank planning, allowing efficiency targets to be exceeded. Investment in lower than the prior year comparative caused by reductions in volumes delivered this year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(3) Signalling – whilst expenditure in the current year is in line with the regulatory baseline, it is significantly behind in the control period to date. This was mainly due to delays in signalling works for volumes to be realised in future years, with spend expected to increase again next year adding to the catch up experienced in the current year. The higher spend in the current year compared to 2021/22 included extra work on Carstairs modernisation and Greenhill resilience project which more than offset reductions in Edinburgh control system work. On a like-for-like basis, costs have been higher so far this control period compared to the regulatory baseline, resulting in financial underperformance being recognised. This has been caused by: inflationary pressures on contractor and materials prices; Covid-19 costs impacting access to delivery sites; loss of economies of scale from reduced workbanks; changes in scope on level crossing conversion schemes; additional commercial claims on large projects, design issues and unforeseen extra landlord compensation to gain access to sites. These factors have been partly mitigated by savings from earlier contractor involvement at the design stage of the project, utilisation of existing equipment and benefits from standard changes.

(4) Civils – costs are lower than the regulatory baseline this year reflecting a change in the phasing of delivery compared to the original regulatory baseline. The control period to date is now slightly lower than the regulatory baseline, which is mainly due to the financial outperformance recognised this control period. The financial outperformance this control period includes: improved delivery of projects, for example instead of constructing scaffolding to complete works on the Lugar Viaduct where rope access mechanisms were used allowing cost savings; utilising an existing blockade in Argyle to delivery extra activity; extra efficiencies from better access planning and earlier contractor involvement in design specification. Spend is lower than the previous year reflecting the different profile of delivery. The prior year included greater delivery on Forth bridge work, Anderston Tunnel and New Clyde.

(5) Earthworks – spend this year is over the regulatory baseline including the impact of higher like-for-like project costs. The financial underperformance has arisen form a combination of: reprioritisation of workbanks across earthworks, drainage and wider asset portfolios with a greater focus on assets which provide longer term resilience, albeit at a higher cost; materials and other inflationary pressures; difficulties securing access to undertake required works causing project prolongation; and late design changes to offer optimal scope. The Stonehaven works carried out to repair the network after the derailment two summers ago are funded via the group insurance renewals fund and therefore the spend is not captured within the regional figures. Control period to date spend is slightly higher than the regulatory baseline, which is driven by acceleration of activity and the higher like-for-like project costs recognised this year. Expenditure is lower than the previous year reflecting variability in project delivery in the control period, with further reductions expected in 2023/24. In addition, more of the activity this year has been classified as Drainage leading to higher spend in that line.

(6) Buildings – expenditure this year is lower than the regulatory baseline, particularly on Franchised stations, but broadly in line with the control period to date. Financial underperformance has been recognised in the control period to date, including: footbridge projects having issues with access times which resulted in project extensions; works were required in Edinburgh projects which were not originally designed; delays to projects from higher contract tender prices; and Covid-19 and the impact social distancing had on contractor availability and internal ability to complete works. Investment in the current year is lower than the previous year, mainly due to phasing differences in the delivery of activity at Franchised stations, including work at Stirling, Drumry Harp and emergency works at Troon following a fire.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year and the control period to date. This is the result of increased strategic attention diverted to electrification, particularly overhead lines, to help Scotland's government achieve environmental objectives. Costs are lower than last year reflecting the phasing of projects in this area this control period, particularly on the Carstairs modernisation programme.

(8) Drainage – expenditure this year is higher than the regulatory baseline which is mainly caused by higher like-for-like costs, as shown by the financial underperformance reported this year. The financial underperformance recognised includes costs of postponing activity at some sites into CP7 as funding has been repurposed. In addition, higher materials and other inflationary pressures along with access issues have forced costs up. Costs have been higher in the control period to date which is mostly due to higher like-for-like project costs experienced in the current year. Expenditure is higher than the previous year, including extra work on earthworks drainage which has been partly offset by the reduction in the level of Earthworks required.

(9) Property – investment in the control period to date is lower than the regulatory assumption. Since responsibility and budget has been deferred to the Region, funding has been reprioritised in Scotland.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery and property being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance.

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(3) Telecoms – investment is lower than the regulatory baseline in the year and the control period to date. Slippage on operational communications and SISS are the primary reasons for the lower spend this control period. A large catch up in SISS expenditure is planned for 2023/24. Regional decisions have been made to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Further step ups in investment are expected next year across the Telecoms estate. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline continuing the trend of earlier years in the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

a. Infrastructure monitoring – costs are lower than the regulatory baseline in the control period to date, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

b. Intervention – costs are lower than the regulatory baseline in the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7. Costs are noticeably lower than the previous year which included investment in replacing track plain line stoneblower machines and rail milling train purchase.

c. Materials delivery – investment is lower than the regulatory baseline assumption for the control period to date. The primary cause is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

d. On track plant – investment is lower in the control period so far. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

e. Seasonal – expenditure is lower in the control period to date. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

f. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories.

(5) STE renewals – overall STE expenditure is broadly in line with the regulatory expectation in both the current year and the control period to date. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs in the control period to date are lower than the regulatory baseline. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. The lower spend in the current year means the control period to date is now also lower then than the regulatory target. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

d. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

e. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

(6) Other – investment in the control period to date is higher than the regulatory baseline due to the inclusion of the Phasing overlay as explained below. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as a higher proportion of the programme's outputs have been delivered in other regions compared to the baseline assumption. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

Scotland's Railway
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	(3)	5	56	53	(1)
Aberdeen to Inverness	-	(2)	-	70	70	4
Kintore Station	-	(2)	-	14	14	(1)
Rolling Programme of Electrification	-	(2)	(5)	15	14	(5)
East Kilbride Barrhead	5	2	-	27	27	-
New Down Platform Dunbar	-	(1)	-	7	8	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	1	(5)	-	5	5	-
Cadder HST Depot	1	(1)	(1)	33	33	(3)
Hairmyres Land Purchase	-	-	-	14	14	-
Feeder St/Power Mod Ele	35	36	-	81	90	-
Edinburgh Waverley Western Approaches	-	(9)	-	6	5	-
Reston Station	1	-	-	17	20	-
North Hanover Street Development	-	(7)	-	5	6	-
West of Fife Enhancements	-	-	-	5	6	-
A9 Interface- Lynebeg Bridge	1	(4)	-	10	9	1
Far North Line Route Enhanceme	3	(1)	-	13	13	-
East Linton Station	8	6	(1)	19	15	(1)
Busby Jn to Barrhead Ele	23	11	-	38	37	-
Dalcross New Station	29	22	(1)	41	41	(1)
Levenmouth	35	33	-	47	47	-
GLAB Currie Feeder St	7	4	-	16	16	-
Cadder Buildings	-	4	-	6	8	(1)
Fife Decarbonisation	9	3	-	15	16	-
Millerhill Interventions	3	(2)	-	4	4	-
Barrhead Kilmarnock Ele	-	(7)	-	-	1	-
Aberdeen Cent Belt Elec	18	18	-	24	24	-
Portobello Junction	7	10	-	10	10	-
Aberdeen Cen Journey	2	7	-	6	7	-
Other	(9)	(17)	(1)	81	72	-
Total	**179**	**93**	**(4)**	**691**	**692**	**(2)**
Other Capital Expenditure	**-**	**-**	**-**	**13**	**-**	**-**
Other third party funded schemes						
Other third Party	10	-	-	15	-	-
Total	**10**	**-**	**-**	**15**	**-**	**-**
Total enhancements	**189**	**93**	**(4)**	**719**	**692**	**(2)**
Total enhancements less Other third party funded schemes	179	93	(4)	704	692	(2)

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the regulatory baseline, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with Scotland's Railway's core funder (TS). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the core Scotland's Railway funder of TS.

(3) In line with the Regulatory Accounting Guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government. These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Scotland's Railway's core funder (TS).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements. This is a new class of expenditure this year so there is no regulatory baseline or prior year comparative.

Comments:

(1) Enhancement expenditure in the year paid for by the core Scotland's Railway funder (Transport Scotland) was £179m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£189m) less the PAYGO schemes funded by other third parties (£10m).

(2) Enhancements expenditure this year is higher than the regulatory baseline mainly due to Transport Scotland redefining the scope, outputs and associated funding for the projects on Scotland's Railway. Control period to date investment is higher than the regulatory baseline mainly due to projects funded by other third parties for which there is no regulatory baseline.

(3) Transport Scotland funded schemes – enhancement expenditure this year is higher than the regulatory baseline. Project specifications and approved change controls for funding with Transport Scotland has been reflected this year which brings the control period to date position broadly in line with the funding available. Some notable variances at programme level this year include:

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

a. Edinburgh to Glasgow Improvement Programme (EGIP) – the key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Change controls made by Transport Scotland this year have reduced the funding available for the project and the associated outputs required, which has reduced the financial underperformance recognised this control period. The remaining financial underperformance recognised this control period is a result of Covid-19.

b. Aberdeen to Inverness – this project to upgrade the railway structure provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.

c. Rolling Programme of Electrification – this project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Cumulative financial performance includes final compensation settlements on completed programme.

d. New Down platform Dunbar – this project has a new platform constructed on the Down Line (northbound) at Dunbar to provide increased capacity and improve operational flexibility on the East Coast Main Line. The project was sustainably complete in 2019-20 and the financial outperformance recognised in earlier years of the control period was as a result of finalisation of contractor costs and management of programme contingencies.

e. Dunblane to Perth – this project is part of the wider Seven Cities Connectivity programme to improve links between some of the major urban areas in Scotland which aims to reduce passenger journey times. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

f. Feeder Station/Power Modelling Electrification – projects are part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Whilst delivery in the current year is in line with funding expectation progress in the control period to date has been slower than anticipated due to Covid-19 impact and delay in Transport Scotland funding release, resulting in reprofiling works into the future years on the full traction power modelling for new and enhanced feeder stations.

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

g. Edinburgh Waverley Western Approaches – this project delivered preliminary work to significantly improve the rail network on the approaches to Edinburgh Waverley Station. The investment enables options for the Edinburgh Waverley Western Approaches (EWWA) project to be taken forward to Outline Business Case. This will explore three infrastructure options for delivering capacity and performance improvements in this section of the railway. Investment in the project is lower than the funding available. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

h. North Hanover Street development – this programme included improvement to Glasgow Queen Street facilities, such as retail, and increased connectivity and access from/ to the station to the surrounding area. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

i. A9 interface Lynebeg bridge – this programme is part of supporting work ahead of dualling of the A9 road between Tomatin and Moy on the Highland mainline part of the network. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

j. Far North Line route enhancement – this programme aims to upgrade the radio communications network on the Highland rail network and services it enables for passengers at stations as well as improve the safe movement of train services across the Far North line. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

k. Bushey Junction to Barrhead electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been a catch up on investment this year compared to the funding baseline which has bought the control period to date investment largely in line with funding available.

l. Dalcross new station – this project delivered a new station which opened in February 2023. This year expenditure was higher than the funding available which has bought the control period to date investment broadly in line with target.

m. Fife decarbonisation – this programme supports the removal of diesel-powered units through the introduction of Battery Electric Multiple Unit (BEMU) services, via partial electrification, with the potential for full electrification of the line and move to full electric services in the future. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

n. Millerhill interventions – this project encompassed a package of works to grow activity in Lothian and Borders area of the network. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought the control period to date investment broadly in line with the funding available.

o. Barrhead Kilmarnock electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been minimal activity on this project so far this control period as Transport Scotland have reviewed its priorities and so the regulatory baseline has been change controlled this year.

p. Aberdeen Central Belt – this programme is part of an ongoing investment to reduce rail journey times from Aberdeen to Glasgow, Edinburgh and Dundee, and to improve connectivity and enhance capacity for both passenger and freight trains. Expenditure in the current year is lower than the funding available which has bought the control period to date position broadly in line with the funding made available by Transport Scotland.

q. Other – this heading captures investment activity on numerous smaller programmes. The negative expenditure and baseline reported in the current year is mostly due to activity reported in "other" in previous years' Regulatory Financial Statements being reclassified into individual programmes in this statement now that these enhancements have a full scope, and so baseline, to report against.

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – the most notable investment this year (and in the control period to date) is Ravenscraig line crossing, a project financed by the local council to improve connectivity in the area.

Scotland's Railway
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23			FY23			FY22		
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	59	41	1,439	32	20	1,600
	PL Replace Partial	km	121	305	397	96	265	362
	PL High Output	km	-	-	-	28	23	1,217
	PL Refurbishment	km	24	240	100	20	183	109
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	3	9	333	39	51	765
	Switches & Crossing - Other	point ends	26	216	120	25	187	134
	Off Track	km/No.	39	1,297	30	34	1,246	27
	Track Other		-	-	-	-	-	-
	Total		**272**			**274**		
Signalling	Signalling Full	SEU	-	-	-	8	11	727
	Signalling Partial	SEU	69	199	347	9	7	1,286
	Signalling Refurb	SEU	10	24	417	4	11	364
	Level crossings	No.	1	1	1,000	10	5	2,000
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**80**			**31**		
Civils	Underbridges	m2	45	27,266	2	97	35,702	3
	Overbridges (incl BG3)	m2	6	1,968	3	17	3,969	4
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	12	11,875	1	-	49	-
	Culverts	m2	4	597	7	12	1,535	8
	Footbridges	m2	-	-	-	-	-	-
	Coastal & Estuarial Defences	m2	-	-	-	3	975	3
	Retaining Walls	m2	3	1,473	2	1	867	1
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**70**			**130**		
Earthworks	Earthworks - Embankments	No.	8	314	25	17	275	62
	Earthworks - Soil Cuttings	No.	57	1,199	48	54	1,233	44
	Earthworks - Rock Cuttings	No.	8	108	74	12	245	49
	Earthworks - Other	No.	4	33	121	-	22	-
	Drainage - Earthworks	m	10	27,449	0	6	35,973	0
	Drainage - Other	m	21	32,154	1	22	39,782	1
	TOTAL		**108**			**111**		
Buildings	Buildings (MS)	m2	-	400	-	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	1,500	-
	Other (MS)	m2	-	-	-	-	1,500	-
	Buildings (FS)	m2	4	2,737	1	6	5,526	1
	Platforms (FS)	m2	3	2,007	1	6	16,899	0
	Canopies (FS)	m2	1	1,214	1	-	-	-
	Train sheds (FS)	m2	-	-	-	1	-	-
	Footbridges (FS)	m2	-	-	-	2	891	2
	Lifts & Escalators (FS)	m2	1	1	1,000	-	-	-
	Other (FS)	m2	5	3,250	2	-	-	-
	Light Maintenance Depots	m2	-	551	-	2	5,363	0
	Depot Plant	m2	-	-	-	-	1	-
	Lineside Buildings	m2	-	828	-	-	-	-
	MDU Buildings	m2	1	3,530	0	-	-	-
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**15**			**17**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	1	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	5	67	75	6	67	90
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	17	-
	Other AC	No.	-	-	-	1	6	167
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	1	-
	UPS (#)	No.	2	23	87	1	23	43
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	3	21	143	2	21	95
	Signalling Supply Points	point end	-	3	-	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**10**			**10**		
Telecoms	Customer Information Systems	No.	4	465	9	7	608	12
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	1	87	11	1	103	10
	PABX Concentrator	No.	-	-	-	-	86	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	1	1,000	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	3	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	1	8	125
	Power		-	-	-	-	1	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**6**			**9**		

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - There has been an increase in the unit cost of PL Replace Partial, this is due to the different mix of work bank that was delivered in the year combined with higher levels of inflation impacting cost of materials in macro-economic environment. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. The reduction in the unit rates for Switches & Crossing – Other is largely due to a significant reduction in the number of volumes included this year which makes like-for-like analysis impractical to identify trends in the movement of unit cost.

(3) Signalling – Signalling partial has seen a reduction of unit costs largely as a result of efficiency releases gained in the Edinburgh Control System Renewal Project due to early integration and collaboration with main contractors. Level crossing has shown a significant reduction in unit rates. However, as the sample of projects in 2022/23 was limited to one, it makes identifying any meaningful trends impossible.

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway – continued

In £m cash prices unless stated

(4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – Most of the categories in this area has large stayed flat with units costs showing marginal movements despite inflationary pressures. Earthworks – other showed a significant decrease in unit costs compared to the prior year, although the number of units increased, largely related to shallow mining risk related projects. Overall Earthworks Rock Cuttings costs has increased this year as a result of inflationary pressures Network Rail has experienced with materials and contractor costs.

(6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(7) Electrical Power and Fixed Plant – There has been an increases in the unit costs of HV Switchgear Renewal AC, UPS and a significant increase on signalling power cables, this was as a result of the CAPSO 650V feeder cable project in networking operations.

(8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Scotland's Railway
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

2022-23

	£m
Opening RAB (2020-21 Actual prices)	**7,957**
Indexation to 2021-22 prices	8,808
RAB additions	
Renewals expenditure	426
Enhancements expenditure	-
Less amortisation	(426)
Property Sales	0
Closing RAB	**8,808**

Net debt

	£m
Opening net debt	**5,584**
Income	(1,081)
Expenditure	965
Financing Costs - Government borrowing	82
Financing Costs - index linked debt	321
Financing Costs - Other	13
Corporation tax	(6)
Working capital	(11)
Closing net debt	**5,867**

Statement 4: Regulatory financial position, Scotland's Railway

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the network in Scotland's Railway and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £0.4bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs). No significant disposals of assets in Scotland were made this year.

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Scotland's Railway and how it has moved during the year.

(8) Network Rail's debt attributable to Scotland's Railway is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Scotland's Railway – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Transport Scotland to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Eastern
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	2,654	2,299	355	-	2,120
Franchised track access charges	536	665	(129)	(46)	618
Other Single Till Income	174	186	(12)	(20)	155
Total Income	**3,364**	**3,150**	**214**	**(66)**	**2,893**
Operating expenditure					
Network operations	212	207	(5)	(5)	235
Support costs	304	245	(59)	47	288
Traction electricity, industry costs and rates	281	392	111	(1)	318
Maintenance	634	530	(104)	(89)	636
Schedule 4	236	79	(157)	(140)	111
Schedule 8	59	40	(19)	(19)	(40)
	1,726	**1,493**	**(233)**	**(207)**	**1,548**
Capital expenditure					
Renewals	1,096	1,082	(14)	(50)	1,264
Enhancements	1,224	1,158	(66)	7	962
	2,320	**2,240**	**(80)**	**(43)**	**2,226**
Risk expenditure					
Risk (Centrally-held)	-	74	74	-	-
Risk (Route-controlled)	-	22	22	-	-
Risk (Contingent asset management funding)	-	80	80	-	-
	-	**176**	**176**	**-**	**-**
Other expenditure					
Financing costs	1,114	590	(524)	-	827
Corporation tax	(14)	26	40	-	-
	1,100	**616**	**(484)**	**-**	**827**
Total expenditure	**5,146**	**4,525**	**(621)**	**(250)**	**4,601**
Total Financial Out/(under) performance				**(316)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	8,419	8,230	189	-
Franchised track access charges	2,266	2,619	(353)	(143)
Other Single Till Income	605	695	(90)	(101)
Total Income	**11,290**	**11,544**	**(254)**	**(244)**
Operating expenditure				
Network operations	851	815	(36)	(36)
Support costs	1,002	964	(38)	93
Traction electricity, industry costs and rates	1,072	1,285	213	(2)
Maintenance	2,287	2,067	(220)	(204)
Schedule 4	553	400	(153)	(151)
Schedule 8	(21)	143	164	165
	5,744	**5,674**	**(70)**	**(136)**
Capital expenditure				
Renewals	4,204	4,031	(173)	(267)
Enhancements	3,657	3,509	(148)	(77)
Other	-	-	-	-
	7,861	**7,540**	**(321)**	**(344)**
Risk expenditure				
Risk (Centrally-held)	-	172	172	-
Risk (Route-controlled)	-	52	52	-
Risk (Contingent asset management funding)	-	215	215	-
	-	**439**	**439**	**-**
Other expenditure				
Financing costs	2,876	2,370	(506)	-
Corporation tax	1	55	54	-
	2,877	**2,425**	**(452)**	**-**
Total expenditure	**16,482**	**16,078**	**(404)**	**(480)**
Total Financial Out/(under) performance				**(724)**

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's Eastern net expenditure (Total income less Total expenditure) was around £0.2bn higher than the regulatory baseline and £0.5bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year is mostly due to higher than anticipated financing costs. The control period position is due to a variety of movements including higher financing costs and reduced income partly offset by the presence of risk funds.

(2) This statement also shows that Network Rail Eastern has recognised financial underperformance of £316m this year and £724m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, income and maintenance expenditure being heavily affected by the Covid-19 pandemic and industrial action this year.

(3) Income – Grant income is higher than the regulatory baseline this year mainly as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in Eastern compared to the regulatory baseline's expectation. Grants have been higher in the control period to date for similar reasons partly offset by lower external interest costs. Grants are higher this reflecting a different profile of activity and utilisation of the grant funding available in Eastern. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the year is lower than the regulatory baseline due to a combination of reduced services ran as a result of industrial action and lower traction electricity charges as market prices have not risen as quickly as the regulatory baseline assumed. So far this control period, less income has been received than the regulatory baseline expected. This is mainly due to lower variable track income, owing to the aforementioned industrial action this year, but also due to the reduced level of services ran during the Covid-19 pandemic period, and lower market prices for electricity this control period. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is lower than the previous year. This is partly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). In addition, the financial settlement for CP6 assumed a reduction in fixed track access in Eastern this year. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period to date is below the regulatory baseline for the same reason. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is higher than the previous year, mainly due to higher property income as the rental market recovers and through extra disposal opportunities identified this year. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were slightly higher than the regulatory expectation this year, continuing the trend of earlier in the control period. The higher costs in the control period to date also includes Network Rail’s response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Another reason for this underperformance is owed to restructuring for PPF which moved costs unaccounted for in the baseline to this area. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure - Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are higher than the regulatory baseline for similar reasons but also include investment in train performance improvement initiatives along with Covid-19 related expenditure. Costs are higher than the previous year including the aforementioned greater number of projects being classified as opex rather than capex and the impact of workforce reform savings recognised centrally last year. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator’s assumption in the current year due to savings in Traction electricity and Business rates. Whilst market electricity prices have increased significantly this year, many of the operators had pre-purchased requirements, which limited the impact of market rises. Business rates have been lower due to government delays in re-setting these rates owing to Covid-19. Costs are lower in the control period to date mainly due to lower electricity costs, although this is offset by lower income received from operators (refer to Statement 2). Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline again this year. This includes extra work on devegetation and compliance with safety standards and inflationary pressures on materials prices. The higher costs in the control period to date also include extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. Maintenance costs are discussed in more detail in Statement 3.2.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of Temporary Speed Restrictions and asset failure all contributing to delays. In the control period to date, there is a significant level of outperformance. Covid-19 resulted in fewer passengers and fewer services causing record levels of punctuality. This year’s net outflow to operators is in contrast to the net inflow recognised last year, reflecting the impact of returning passengers on punctuality, impact of heat in the summer and a record level of Temporary Speed Restrictions due to higher levels of asset failure this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is broadly in line with the regulatory baseline this year and higher in the control period to date. The control period to date reflects higher like-for-like project costs. The net financial underperformance across the portfolio is due to multitude of factors including the impact of Covid-19 on project delivery, increased expenditure in earthworks post the Stonehaven derailment, industrial action and other access issues along with track high output failure issues. This is partly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly. In addition, Eastern has followed a different profile of activity reflecting other financial risks from industrial action and profiling activity across the rest of the control period. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year is higher than the regulatory baseline which adds to the higher investment in earlier years of the control period. This is mainly due to Spending review re-baseline in 2020/21 and subsequent decisions on what outputs and future projects they want delivered. The largest scheme by far in Eastern this year was the TransPennine route upgrade but there was also significant investment in the East Coast digital signalling programme along with improvements to the Midland Main Line. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Eastern
Statement 2: Analysis of income
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	167	168	(1)	-	200
Variable usage charge	66	102	(36)	(36)	69
Electrification asset usage charge	8	13	(5)	(5)	8
Capacity charge	-	-	-	-	-
Open access income	13	20	(7)	(7)	14
Managed stations long term charge	14	14	-	-	15
Franchised stations long term charge	36	35	1	1	37
Traction electricity charges	146	228	(82)	-	177
Schedule 4 access charge supplement	62	61	1	1	70
	512	**641**	**(129)**	**(46)**	**590**
Other single till income					
Freight income					
Freight variable usage charge	24	28	(4)	(4)	27
Freight other income	2	2	-	-	1
	26	**30**	**(4)**	**(4)**	**28**
Stations income					
Managed stations qualifying expenditure	15	15	-	-	15
Franchised stations lease income	13	14	(1)	(1)	14
	28	**29**	**(1)**	**(1)**	**29**
Facility and financing charges					
Facility charges	15	14	1	1	15
	15	**14**	**1**	**1**	**15**
Property income					
Property rental	50	68	(18)	(18)	41
Property sales	6	3	3	3	3
	56	**71**	**(15)**	**(15)**	**44**
Depots Income	**31**	**25**	**6**	**6**	**33**
Other income	**1**	**2**	**(1)**	**(1)**	**1**
Freight traction electricity charges	**7**	**2**	**5**	**-**	**4**
Total other single till income	**164**	**173**	**(9)**	**(14)**	**154**
Total Regionally-managed income	**676**	**814**	**(138)**	**(60)**	**744**
Centrally-managed income					
Network grant	2,311	1,847	464	-	1,731
Internal financing grant	178	250	(72)	-	181
External financing grant	146	145	1	-	175
BTP grant	33	31	2	-	33
Corporation tax grant	(14)	26	(40)	-	-
Infrastructure cost charges	7	7	-	-	9
Schedule 4 access charge supplement	17	17	-	-	19
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	2,678	**2,323**	**355**	**-**	2,148
Other single till income					
Property income					
Property rental	3	6	(3)	(2)	6
Property sales	7	7	-	(4)	(5)
	10	**13**	**(3)**	**(6)**	**1**
Total other single till income	**10**	**13**	**(3)**	**(6)**	**1**
Total centrally-managed income	**2,688**	**2,336**	**352**	**(6)**	**2,149**
Total income	**3,364**	**3,150**	**214**	**(66)**	**2,893**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	769	783	(14)	-
Variable usage charge	266	377	(111)	(111)
Electrification asset usage charge	31	43	(12)	(12)
Capacity charge	-	-	-	-
Open access income	55	75	(20)	(20)
Managed stations long term charge	56	55	1	2
Franchised stations long term charge	135	136	(1)	(1)
Traction electricity charges	306	441	(135)	-
Schedule 4 access charge supplement	293	294	(1)	(1)
	1,911	**2,204**	**(293)**	**(143)**
Other single till income				
Freight income				
Freight variable usage charge	90	96	(6)	(6)
Freight other income	5	4	1	-
	95	**100**	**(5)**	**(6)**
Stations income				
Managed stations qualifying expenditure	55	58	(3)	(3)
Franchised stations lease income	49	55	(6)	(4)
	104	**113**	**(9)**	**(7)**
Facility and financing charges				
Facility charges	56	56	-	(1)
	56	**56**	**-**	**(1)**
Property income				
Property rental	103	186	(83)	(83)
Property sales	12	11	1	2
	115	**197**	**(82)**	**(81)**
Depots Income	**114**	**99**	**15**	**16**
Other income	**2**	**5**	**(3)**	**(6)**
Freight traction electricity charges	**10**	**5**	**5**	**-**
Total other single till income	**496**	**575**	**(79)**	**(85)**
Total Regionally-managed income	**2,407**	**2,779**	**(372)**	**(228)**
Centrally-managed income				
Network grant	6,939	6,501	438	-
Internal financing grant	698	893	(195)	-
External financing grant	659	662	(3)	-
BTP grant	122	118	4	-
Corporation tax grant	1	56	(55)	-
Infrastructure cost charges	31	32	(1)	-
Schedule 4 access charge supplement	71	71	-	-
Traction electricity charges	253	312	(59)	-
Freight traction electricity charges	5	4	1	-
	8,779	**8,649**	**130**	**-**
Other single till income				
Property income				
Property rental	78	83	(5)	(4)
Property sales	26	33	(7)	(12)
	104	**116**	**(12)**	**(16)**
Total other single till income	**104**	**116**	**(12)**	**(16)**
Total centrally-managed income	**8,883**	**8,765**	**118**	**(16)**
Total income	**11,290**	**11,544**	**(254)**	**(244)**

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is higher than the current year regulatory baseline mainly due to additional grant income recognised this year more than offsetting reduced income from operators. Income is higher than last year as a result of the aforementioned higher network grants reflecting the phasing of activity undertaken in the region compared to the regulatory baselines. Income for the control period to date is lower than the regulatory baseline, due to lower property income, Traction electricity income, variable usage charge which is reflected in the financial underperformance for both the year, and the control period to date.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, due to a combination of the on-going impact of Covid recovery on service levels and property income, along with lower electricity traction costs, which is offset by corresponding lower costs. Regionally-managed income is lower than last year mainly due to planned reductions in Infrastructure cost charges and Schedule 4 access charge supplement. Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 upon Property income and Variable track access charges, as well as lower traction electricity income, which is offset by lower costs.

(2) Infrastructure cost charges - fixed charge income was in line with the regulatory expectation this year. The control period to date continues to show a shortfall, mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income appears lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year’s November CPI (i.e. November 2021).

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, many operators in Eastern are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand. Income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021) and also due to the aforementioned industrial action this year.

(4) Electrification asset usage charge – income is below the regulatory expectation this year, mostly due to running fewer trains than planned due to a combination of disruptive industrial action as well as demand for services as the industry recovers from Covid. The same factors are driving the performance compared to the control period to date target.

(5) Open access income – income is lower than the regulatory baseline in the year and the control period to date mainly due to responsibility for the Open access income received by London Underground moving over from the Eastern region to the Southern region. Income is consistent with the previous year.

(6) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In 2021/22, Network Rail has allocated traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Income was lower than the previous year reflecting the latest operator traffic plans in the region and the prices that the operators had locked into through purchasing their energy requirements in advance of rising market prices. This is offset by a reduction in traction electricity costs in the region (refer to Statement 3.6). As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. This is mainly due to planned reductions as reflected in the regulatory baseline for this year but also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(8) Freight Income – income is slightly lower than the regulatory baseline this year, mainly due to the disruptive impact of industrial action. This has limited the number of services that Network Rail has been able to run to satisfy the demand from freight operators. The current year variance is also the driver of the majority of the adverse position in the control period to date.

(9) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

(10) Property sales – sales this year are in line with the regulatory baseline and includes the proceeds from disposal of part of the network which is treated as neutral for financial performance measure purposes. Sales are noticeably higher than the previous year which included

(11) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period to date, due to additional services offered to operators.

Centrally-managed income

(1) Aggregate Centrally-managed income is higher than the CP6 baseline this year as higher grant income has been recognised, more than reversing shortfalls in previous years. Additional income compared to the previous year is mainly due to higher Network grant revenue recognised this year.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in this region compared to the regulatory baseline's expectation. The control period to date position reflects higher performance regime (Schedule 4 & Schedule 8) costs this year along with additional renewals and maintenance investment. Income is higher than the previous year due to extra expenditure recognised this year, particularly within the performance regime (Schedule 4 & Schedule 8) and Maintenance.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

(8) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(9) Property sales – sales this year are in line with the regulatory baseline and includes the proceeds from disposal of part of the network which is treated as neutral for financial performance measure purpose. Income is higher than the previous year which included the creation of a fire provision for West Hampstead and the update to the value of the work in progress at Bishop Stortford.

Eastern
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	204	201	(3)	(4)	226
Maintenance	596	508	(88)	(74)	618
Support costs	71	41	(30)	(30)	88
Traction electricity, industry costs and rates	267	382	115	(1)	306
Schedule 4	236	60	(176)	(159)	116
Schedule 8	56	35	(21)	(21)	(46)
	1,430	**1,227**	**(203)**	**(289)**	**1,308**
Capital expenditure					
Renewals	962	907	(55)	(48)	1,063
Enhancements	1,219	1,158	(61)	7	944
	2,181	**2,065**	**(116)**	**(41)**	**2,007**
Total Regionally-managed expenditure	**3,611**	**3,292**	**(319)**	**(330)**	**3,315**
Centrally-managed expenditure					
Operating expenditure					
Network operations	8	7	(1)	(1)	9
Maintenance	38	22	(16)	(15)	18
Support costs	233	204	(29)	77	200
Traction electricity, industry costs and rates	14	10	(4)	-	12
Schedule 4	-	19	19	19	(5)
Schedule 8	3	5	2	2	6
	296	**267**	**(29)**	**82**	**240**
Capital expenditure					
Renewals	134	175	41	(2)	201
Enhancements	5	-	(5)	-	18
	139	**175**	**36**	**(2)**	**219**
Risk Expenditure	**-**	**176**	**176**	**-**	**-**
Other					
Financing costs	1,114	590	(524)	-	827
Taxation	(14)	26	40	-	-
	1,100	**616**	**(484)**	**-**	**827**
Total centrally-managed expenditure	**1,535**	**1,234**	**(301)**	**80**	**1,286**
Total expenditure	**5,146**	**4,526**	**(620)**	**(250)**	**4,601**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	821	786	(35)	(35)
Maintenance	2,193	1,983	(210)	(192)
Support costs	273	161	(112)	(114)
Traction electricity, industry costs and rates	547	714	167	(5)
Schedule 4	553	328	(225)	(223)
Schedule 8	(28)	127	155	155
	4,359	**4,099**	**(260)**	**(414)**
Capital expenditure				
Renewals	3,622	3,455	(167)	(290)
Enhancements	3,493	3,509	16	(77)
	7,115	**6,964**	**(151)**	**(367)**
Total Regionally-managed expenditure	**11,474**	**11,063**	**(411)**	**(781)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	30	29	(1)	(1)
Maintenance	94	84	(10)	(12)
Support costs	729	803	74	207
Traction electricity, industry costs and rates	525	571	46	3
Schedule 4	-	72	72	72
Schedule 8	7	16	9	10
	1,385	**1,575**	**190**	**279**
Capital expenditure				
Renewals	582	576	(6)	23
Enhancements	164	-	(164)	-
Other	-	-	-	-
	746	**576**	**(170)**	**23**
Risk Expenditure	**-**	**439**	**439**	**-**
Other				
Financing costs	2,876	2,370	(506)	-
Taxation	1	55	54	-
	2,877	**2,425**	**(452)**	**-**
Total centrally-managed expenditure	**5,008**	**5,015**	**7**	**302**
Total expenditure	**16,482**	**16,078**	**(404)**	**(479)**

Statement 3: Analysis of expenditure, Eastern – continued

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, mainly due to higher financing costs. The control period to date position is also higher than the regulatory baseline as higher financing costs have more than offset the presence of risk funds. Costs are higher than the previous year. Whilst there are a number of variances the largest are the increases in financing costs and performance regimes.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed due to extra schedule 4 costs arising mainly from industrial action and higher operating costs and additional capital investment. Costs are higher in the control period to date including the impact of industrial action, Covid-19 and extra maintenance. Costs are higher than the previous year with higher performance regime costs (including the impact of industrial action and challenging train performance) and a step up in delivery of the TransPennine Route upgrade enhancement programme. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has more than offset the higher financing costs experienced this year. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Eastern
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	91	96	5	5	104
Operations Management	28	21	(7)	(7)	31
Controllers	16	10	(6)	(6)	16
Electrical control room operators	5	6	1	1	6
	140	**133**	**(7)**	**(7)**	**157**
Non signaller expenditure					
Mobile operations managers	19	15	(4)	(4)	20
Managed stations	13	14	1	1	15
Performance	5	7	2	2	4
Other	27	31	4	4	30
Total Regionally-managed Operations expenditure	**204**	**200**	**(4)**	**(4)**	**226**
Centrally-managed Operations expenditure					
Network Services	8	7	(1)	(1)	9
Total centrally-managed Operations expenditure	**8**	**7**	**(1)**	**(1)**	**9**
Total operations expenditure	**212**	**207**	**(5)**	**(5)**	**235**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	373	375	2	2
Operations Management	102	84	(18)	(18)
Controllers	57	41	(16)	(16)
Electrical control room operators	19	24	5	5
	551	**524**	**(27)**	**(27)**
Non signaller expenditure				
Mobile operations managers	68	59	(9)	(9)
Managed stations	53	53	-	-
Performance	20	29	9	9
Other	129	121	(8)	(8)
Total Regionally-managed Operations expenditure	**821**	**786**	**(35)**	**(35)**
Centrally-managed Operations expenditure				
Network Services	30	29	(1)	(1)
Total centrally-managed Operations expenditure	**30**	**29**	**(1)**	**(1)**
Total operations expenditure	**851**	**815**	**(36)**	**(36)**

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were slightly higher than the regulatory expectation this year, continuing the trend of earlier in the control period. The higher costs in the control period to date also includes Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Another reason for this underperformance is owed to restructuring for PPF which moved costs unaccounted for in the baseline to this area. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Signaller and level crossing keepers - costs are broadly in line with the regulatory expectation for both the current year, and the control period to date. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, costs in the previous year included additional Covid-19 related costs to provide operational resilience and continue to keep train services running.

(3) Operations management - costs are higher than the regulatory expectation for both the current year, and the control period to date. The higher costs this year included additional resource to improve train performance for passengers. The higher costs in the control period to date also includes increased costs to ensure the railway kept moving during the Covid-19 pandemic. There was also the creation of new PPF initiatives in York and the completion of a project allowing the more seamless flow of information to TOC owned CIS's.

(4) Controllers – costs are higher than the regulatory baseline this year but are in line with the previous year. Costs are higher in the control period to date, due to an increase in the staff premium costs as a result of high sickness levels during Covid-19 and the need to have sufficient cover for sick and self-isolating staff. There was also the creation of new PPF initiatives in York which increased capabilities in this area.

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

(5) Mobile operations managers – costs were higher than the regulatory baseline this year, continuing the trend from earlier in the control period. This was due to additional resource being invested in these teams to help improve performance. Following PPF, extra capabilities were included in the Region team in this area.

(6) Performance – costs were lower than the regulatory baseline this year, continuing the trend from earlier in the control period. Through PPF changes, some of the responsibilities relating to performance were embedded in the resources managed through Mobile operations managers and Operations management. Whilst this does not change the overall Operations expenditure for Eastern, it does alter where it gets reported in these Regulatory Financial Statements.

(7) Other – whilst overall costs are slightly lower than the regulatory baseline this year, they are higher in the control period to date. This is primarily due to investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line in 2020/21.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date, as well as the previous year.

Eastern
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	235	220	(15)	(2)	249
Signalling & Telecoms	94	78	(16)	(16)	101
Civils	101	68	(33)	(40)	99
Buildings	31	22	(9)	(2)	29
Electrical power and fixed plant	40	37	(3)	(3)	46
Other network operations	95	83	(12)	(11)	94
	596	**508**	**(88)**	**(74)**	**618**
Centrally-managed maintenance expenditure					
Telecoms	8	10	2	2	8
Route Services - Asset Information	11	10	(1)	(1)	12
STE Maintenance	-	2	2	2	-
Property	-	-	-	-	-
Route Services - Other	15	(4)	(19)	(16)	(2)
Other	4	4	-	(2)	-
	38	**22**	**(16)**	**(15)**	**18**
Total maintenance expenditure	**634**	**530**	**(104)**	**(89)**	**636**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	918	868	(50)	(39)
Signalling & Telecoms	358	310	(48)	(49)
Civils	319	265	(54)	(61)
Buildings	103	86	(17)	(2)
Electrical power and fixed plant	156	150	(6)	(8)
Other network operations	339	304	(35)	(33)
	2,193	**1,983**	**(210)**	**(192)**
Centrally-managed maintenance expenditure				
Telecoms	26	38	12	12
Route Services - Asset Information	42	42	-	(5)
STE Maintenance	3	7	4	4
Property	1	2	1	1
Route Services - Other	19	(5)	(24)	(26)
Other	3	-	(3)	2
	94	**84**	**(10)**	**(12)**
Total maintenance expenditure	**2,287**	**2,067**	**(220)**	**(204)**

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are slightly higher than the regulatory baseline this year with additional costs in both the Regionally-managed and Centrally-managed categories. Costs for the control period to date are higher than the regulatory baseline reflecting extra costs this year but also expenses responding to the Covid-19 pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs are broadly consistent with the previous year.

Regionally-managed maintenance costs

(1) Overall maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs are due to investment to ensure compliance with CEFA and CAFA standards, PPF reorganisations, additional vegetation management and compliance with safety standards. Control period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the additional costs occurred from the response to Covid-19. These costs included procurement of PPE, fitting vehicles with shields and additional premium costs. This control period variance is also largely due to the PPF programme and reorganisations.

(2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Costs are higher than the regulatory baseline this year due to additional work undertaken to address asset condition. There was also reduced opportunity to utilise spare track maintenance resource to undertake capital programmes this year along with extra track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. The overspend in the control period to date is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

(3) Signalling & telecoms – this year, costs are higher than the regulatory baseline. The changing of organisational and staffing structures have predominantly increased the costs, particularly those in Middlesbrough and Darlington depots, compared to the regulatory assumption for the year. Control period to date spend is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs surrounding our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain our operating license. In 2021/22, we reviewed and changed our contracting strategy leading to short term increases in cost but will ensure we deliver on meeting our examination requirements. Costs have also increased due to an increased vegetation workbank. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons. The overspend in the current year and the control period to date is partly mitigated by reduced reactive maintenance works. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher reactive maintenance expenditure. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are higher than the regulatory baseline but this is almost all due to reactive maintenance activity variances. Costs are broadly in line with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

(6) Other network operations – costs are higher than the regulatory baseline continuing the trend from earlier in the control period. There are numerous contributory factors including PPF structural reorganisations and increased training to improve staff capabilities. There are also higher costs to cover staff involved in industrial action. Control period to date spend is higher than the regulatory assumption, primarily due to the additional aforementioned costs and the costs occurred in our response to Covid-19 in ensuring we complied with safety standards such as social distancing.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period.

(3) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

Eastern
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	2	3	1	1	3
Finance	5	3	(2)	(2)	8
Accommodation	26	14	(12)	(12)	27
Utilities	22	20	(2)	(2)	20
Other	16	1	(15)	(15)	30
	71	**41**	**(30)**	**(30)**	**88**
Centrally-managed Support costs					
Finance & Legal	9	17	8	8	15
Communications	5	6	1	1	7
Human Resources	7	11	4	4	9
System Operator	16	24	8	8	16
Property	-	7	7	7	(1)
Telecoms	22	18	(4)	(4)	29
Network Services	-	-	-	-	-
Safety Technical and Engineering	13	14	1	3	15
RS - IT and Business Services	36	37	1	1	42
RS - Asset Information	7	11	4	35	5
RS - Directorate	2	9	7	7	14
Other corporate functions	1	1	-	11	7
Insurance	(3)	17	20	20	10
OPEX/CAPEX Adjustment	70	26	(44)	-	51
Group costs	48	6	(42)	(24)	(19)
	233	**204**	**(29)**	**77**	**200**
Total support costs	**304**	**245**	**(59)**	**47**	**288**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	11	10	(1)	(1)
Finance	23	12	(11)	(11)
Accommodation	86	53	(33)	(33)
Utilities	77	77	-	1
Other	76	9	(67)	(70)
	273	**161**	**(112)**	**(114)**
Centrally-managed Support costs				
Finance & Legal	45	61	16	16
Communications	20	22	2	1
Human Resources	30	34	4	5
System Operator	52	76	24	24
Property	(5)	14	19	19
Telecoms	87	85	(2)	(3)
Network Services	12	21	9	9
Safety Technical and Engineering	50	52	2	4
RS - IT and Business Services	142	144	2	2
RS - Asset Information	21	35	14	46
RS - Directorate	31	30	(1)	(2)
Other corporate functions	18	22	4	5
Insurance	21	60	39	39
OPEX/CAPEX Adjustment	204	100	(104)	-
Group costs	1	47	46	42
	729	**803**	**74**	**207**
Total support costs	**1,002**	**964**	**(38)**	**93**

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to additional costs in both Regionally-managed and Centrally-managed activities as set out below. Costs in the control period to date are higher than the regulatory baseline as greater Regionally-managed expenses have been partly offset by savings in Centrally-managed categories. Costs are higher than the previous year including a greater number of projects being classified as opex rather than capex and the impact of workforce reform savings recognised centrally last year.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline, continuing the trend of the earlier years of the control period. The extra spend this year is due to the implementation of the PPF re-organisation programme, whilst the additional spend in the control period to date also includes Covid-19 related expenditure. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, the previous year also included some non-recurring items.

(2) Finance – costs in the current year are higher than the baseline expectation but broadly in line with the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in recruiting more local Finance staff, in order to support this initiative. The Control period to date is also higher than the regulatory expectation, primarily due to the aforementioned reasons.

(3) Accommodation – costs are significantly higher than the baseline expectation this year primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements. Costs in the control period to date are higher for similar reasons along with expenditure to ensure Covid-19 compliance at Network Rail sites.

(4) Other – costs were higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. This is primarily due to implementation of the PPF programme, which saw an increase in costs in Eastern. This, along with the impact of commercial claims settled for higher than planned in the first year of the control period, has led to a higher Control period to date than the regulator's assumption. Costs in the current year are less than the previous year as workforce reform savings have been made. In addition, the previous year included some non-recurring costs.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher workforce reform implementation costs have been partially offset by savings arising from workforce reform and from reduced insurance expenses. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are higher than the previous year including the aforementioned greater number of projects being classified as opex rather than capex and the impact of workforce reform savings recognised centrally last year.

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(4) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(5) Property - costs are lower than the regulatory baseline this year continuing the trend for the control period to date. The current year reflects savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The control period to date position also benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(6) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(7) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

(8) Technical Authority – costs are broadly in line with the regulatory baseline mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and building on savings recognised in earlier years of the control period. These savings offset costs reported this year for support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(9) Route Services – IT and Business Services – costs are generally in line with the regulatory baseline for the year and the control period to date. Costs are lower than the prior year comparative. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories, flexed for activity. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(11) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(12) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

(13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(14) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

(15) Group – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

Eastern
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	150	231	81	-	179
Business rates	85	120	35	-	94
British transport police costs	32	31	(1)	(1)	33
	267	**382**	**115**	**(1)**	**306**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	7	6	(1)	-	6
RDG membership costs	1	-	(1)	-	1
RSSB costs	5	4	(1)	-	5
Reporters fees	1	-	(1)	-	-
Other industry costs	-	-	-	-	-
	14	**10**	**- 4**	**-**	**12**
Total traction electricity, industry costs and rates	**281**	**392**	**111**	**(1)**	**318**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	312	447	135	-
Business rates	170	205	35	-
British transport police costs	65	62	(3)	(5)
	547	**714**	**167**	**(5)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	252	315	63	2
Business rates	176	164	(12)	-
British transport police costs	54	56	2	1
ORR licence fee and railway safety levy	22	18	(4)	-
RDG membership costs	4	4	-	-
RSSB costs	14	14	-	-
Reporters fees	3	-	(3)	-
Other industry costs	-	-	-	-
	525	**571**	**46**	**3**
Total traction electricity, industry costs and rates	**1,072**	**1,285**	**213**	**(2)**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Eastern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year reflecting comparatively lower traction electricity costs but also from the exceptionally high inflationary uplift factor from November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs were lower than the previous year reflecting the latest operator traffic plans in the region and the prices that the operators had locked into through purchasing their energy requirements in advance of rising market prices. This is offset by a reduction in traction electricity income in the region (refer to Statement 3.2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Eastern – continued

In £m cash prices unless stated

(2) Business rates - from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. This is also driving the control period to date benefit. Costs are lower than the previous year. Whilst in cash terms the costs have increased, the inflationary uplift factor was lower than the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry’s disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Eastern
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	236	60	(176)	(159)	116
Access charge supplement Income	(62)	(63)	(1)	(1)	(70)
Net (income)/cost	**174**	**(3)**	**(177)**	**(160)**	**46**
Schedule 8					
Performance element income	56	-	(56)	(56)	(56)
Performance element costs	-	35	35	35	10
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**56**	**35**	**(21)**	**(21)**	**(46)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	19	19	19	(5)
Access charge supplement Income	(17)	(17)	-	-	(19)
Net (income)/cost	**(17)**	**2**	**19**	**19**	**(24)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	3	5	2	2	6
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**3**	**5**	**2**	**2**	**6**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	236	79	(157)	(140)	111
Access charge supplement Income	(79)	(80)	(1)	(1)	(89)
Net (income)/cost	**157**	**(1)**	**(158)**	**(141)**	**22**
Schedule 8					
Performance element income	56	-	(56)	(56)	(56)
Performance element costs	3	40	37	37	16
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**59**	**40**	**(19)**	**(19)**	**(40)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	553	328	(225)	(223)
Access charge supplement Income	(293)	(296)	(3)	(3)
Net (income)/cost	**260**	**32**	**(228)**	**(226)**
Schedule 8				
Performance element income	(91)	-	91	91
Performance element costs	63	127	64	64
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(28)**	**127**	**155**	**155**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	-	72	72	72
Access charge supplement Income	(71)	(71)	-	-
Net (income)/cost	**(71)**	**1**	**72**	**72**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	7	16	9	10
Access charge supplement Income	-	-	-	-
Net (income)/cost	**7**	**16**	**9**	**10**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	553	400	(153)	(151)
Access charge supplement Income	(364)	(367)	(3)	(3)
Net (income)/cost	**189**	**33**	**(156)**	**(154)**
Schedule 8				
Performance element income	(91)	-	91	91
Performance element costs	70	143	73	74
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(21)**	**143**	**164**	**165**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern – continued

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally strong compared with pre-Covid experience, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. In addition, the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period.

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance remains generally strong compared to pre-Covid experience, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The control period to date remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

(3) Schedule 8 – this year's cost is broadly similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Eastern
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	83	67	(16)	-	88
PL Replace Partial	54	78	24	-	65
PL High Output	27	40	13	-	63
PL Refurbishment	15	-	(15)	-	21
PL Track Slab Track	2	(1)	(3)	-	8
Switches & Crossing - Replace	74	75	1	-	46
Switches & Crossing - Other	18	3	(15)	-	54
Off Track	35	18	(17)	-	42
Track Other	15	(11)	(26)	-	19
	323	**269**	**(54)**	**1**	**406**
Signalling					
Signalling Full	49	63	14	0	68
Signalling Partial	58	27	(31)	0	55
Signalling Refurb	32	42	10	0	30
Level crossings	40	26	(14)	0	24
Minor works	73	131	58	0	84
Other	0	(1)	(1)	0	(2)
	252	**288**	**36**	**(7)**	**259**
Civils					
Underbridges	69	119	50	-	81
Overbridges	29	14	(15)	-	13
Major structures	3	-	(3)	-	6
Tunnels	7	2	(5)	-	11
Minor works	1	-	(1)	-	5
Other	14	8	(6)	-	18
	123	**143**	**20**	**(3)**	**134**
Earthworks					
Earthworks - Embankments	30	19	(11)	-	42
Earthworks - Soil Cuttings	3	4	1	-	6
Earthworks - Rock Cuttings	2	4	2	-	6
Earthworks - Other	2	1	(1)	-	1
	37	**28**	**(9)**	**(4)**	**55**
Buildings					
Managed stations	14	21	7	-	12
Franchised stations	36	26	(10)	-	33
Light maint depots	7	-	(7)	-	3
Depot plant	1	-	(1)	-	2
Lineside buildings	5	1	(4)	-	8
MDU buildings	14	5	(9)	-	11
Other	1	-	(1)	-	2
	78	**53**	**(25)**	**(7)**	**71**
Electrical power and fixed plant					
AC distribution	10	18	8	-	7
Overhead Line	78	46	(32)	-	73
DC distribution	-	2	2	-	-
Conductor rail	3	-	(3)	-	8
Signalling Power Supplies	14	33	19	-	11
Other	-	1	1	-	-
Fixed plant	18	6	(12)	-	14
	123	**106**	**(17)**	**(27)**	**113**
Drainage					
Drainage (Track)	12	4	(8)	-	11
Drainage (Earthworks)	-	6	6	-	1
Drainage (Resilience)	4	7	3	-	4
	16	**17**	**1**	**(1)**	**16**
Property					
Property	10	3	(7)	-	9
	10	**3**	**(7)**	**-**	**9**
Total Regionally-managed renewals expenditure	**962**	**907**	**(55)**	**(48)**	**1,063**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	5	-	(5)	-	-
	5	**-**	**(5)**	**(6)**	**-**
Telecoms					
Operational communications	4	6	2	-	3
Network	5	1	(4)	-	7
SISS	4	2	(2)	-	2
Projects and other	2	2	-	-	1
Non-route capital expenditure	17	22	5	-	21
	32	**33**	**1**	**(6)**	**34**
Wheeled plant and machinery					
High output	6	5	(1)	-	14
Incident response	-	-	-	-	-
Infrastructure monitoring	1	7	6	-	1
Intervention	1	9	8	-	6
Materials delivery	4	7	3	-	3
On track plant	-	8	8	-	-
Seasonal	1	1	-	-	1
Other	9	36	27	-	15
	22	**73**	**51**	**-**	**40**
Route Services					
Business Improvement	14	1	(13)	-	18
IT Renewals	6	23	17	-	7
Asset Information	3	1	(2)	-	4
Other	2	6	4	-	4
	25	**31**	**6**	**-**	**33**
STE Renewals					
Intelligent infrastructure	22	18	(4)	-	31
Faster Isolations	3	3	-	-	2
Centrally Managed Signalling Costs	2	3	1	-	3
Research and development	14	19	5	-	12
Integrated Management System (Incl. BCR)	-	5	5	-	-
Other National SCADA Programmes	1	1	-	-	8
Small plant	4	3	(1)	-	6
Other	40	3	(37)	-	42
	86	**55**	**(31)**	**-**	**104**
Property					
Property	1	8	7	-	1
	1	**8**	**7**	**-**	**1**
Other renewals					
ETCS	10	3	(7)	-	31
Digital Railway	8	8	-	-	5
Civils & Drainage - Insurance Fund	2	8	6	12	2
Buildings - Insurance Fund	1	5	4	-	-
OPEX/CAPEX Adjustment	(70)	(26)	44	-	(50)
Phasing overlay	-	(38)	(38)	-	-
System Operator	10	9	(1)	-	7
Other renewals	2	6	4	(2)	(6)
	(37)	**(25)**	**12**	**10**	**(11)**
Total centrally-managed renewals expenditure	**134**	**175**	**41**	**(2)**	**201**
TOTAL RENEWALS EXPENDITURE	**1,096**	**1,082**	**(14)**	**(50)**	**1,264**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	322	277	(45)	-
PL Replace Partial	221	259	38	-
PL High Output	208	234	26	-
PL Refurbishment	65	13	(52)	-
PL Track Slab Track	10	-	(10)	-
Switches & Crossing - Replace	268	326	58	-
Switches & Crossing - Other	96	20	(76)	-
Off Track	137	80	(57)	-
Track Other	59	(41)	(100)	-
	1,386	**1,168**	**(218)**	**(121)**
Signalling				
Signalling Full	273	256	(17)	-
Signalling Partial	144	135	(9)	-
Signalling Refurb	76	117	41	-
Level crossings	118	158	40	-
Minor works	301	324	23	-
Other	-	(1)	(1)	-
	912	**989**	**77**	**(63)**
Civils				
Underbridges	247	362	115	-
Overbridges	57	51	(6)	-
Major structures	27	16	(11)	-
Tunnels	28	20	(8)	-
Minor works	15	(7)	(22)	-
Other	51	36	(15)	-
	425	**478**	**53**	**(22)**
Earthworks				
Earthworks - Embankments	126	82	(44)	-
Earthworks - Soil Cuttings	14	23	9	-
Earthworks - Rock Cuttings	20	16	(4)	-
Earthworks - Other	6	2	(4)	-
	166	**123**	**(43)**	**(9)**
Buildings				
Managed stations	65	72	7	-
Franchised stations	98	113	15	-
Light maint depots	16	4	(12)	-
Depot plant	7	3	(4)	-
Lineside buildings	21	4	(17)	-
MDU buildings	50	32	(18)	-
Other	5	-	(5)	-
	262	**228**	**(34)**	**(35)**
Electrical power and fixed plant				
AC distribution	21	39	18	-
Overhead Line	260	203	(57)	-
DC distribution	-	10	10	-
Conductor rail	15	-	(15)	-
Signalling Power Supplies	45	83	38	-
Other	2	5	3	-
Fixed plant	40	29	(11)	-
	383	**369**	**(14)**	**(38)**
Drainage				
Drainage (Track)	46	30	(16)	-
Drainage (Earthworks)	2	18	16	-
Drainage (Resilience)	17	24	7	-
	65	**72**	**7**	**(2)**
Property				
Property	23	28	5	-
	23	**28**	**5**	**-**
Total Regionally-managed renewals expenditure	**3,622**	**3,455**	**(167)**	**(290)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	11	-	(11)	-
	11	**-**	**(11)**	**(6)**
Telecoms				
Operational communications	15	24	9	-
Network	15	14	(1)	-
SISS	9	15	6	-
Projects and other	6	5	(1)	-
Non-route capital expenditure	89	89	-	-
	134	**147**	**13**	**(11)**
Wheeled plant and machinery				
High output	34	24	(10)	-
Incident response	-	-	-	-
Infrastructure monitoring	4	20	16	-
Intervention	13	29	16	-
Materials delivery	11	41	30	-
On track plant	2	17	15	-
Seasonal	2	2	-	-
Other	42	49	7	-
	108	**182**	**74**	**-**
Route Services				
Business Improvement	78	41	(37)	-
IT Renewals	35	73	38	-
Asset Information	9	10	1	-
Other	9	9	-	-
	131	**133**	**2**	**-**
STE Renewals				
Intelligent infrastructure	81	58	(23)	-
Faster Isolations	7	15	8	-
Centrally Managed Signalling Costs	7	12	5	-
Research and development	51	57	6	-
Integrated Management System (Incl. BCR)	-	17	17	-
Other National SCADA Programmes	21	20	(1)	-
Small plant	13	11	(2)	-
Other	110	17	(93)	-
	290	**207**	**(83)**	**-**
Property				
Property	6	25	19	-
	6	**25**	**19**	**-**
Other renewals				
ETCS	50	20	(30)	(1)
Digital Railway	14	(3)	(17)	-
Civils & Drainage - Insurance Fund	9	34	25	29
Buildings - Insurance Fund	1	21	20	-
OPEX/CAPEX Adjustment	(200)	(100)	100	-
Phasing overlay	-	(124)	(124)	-
System Operator	23	24	1	-
Other renewals	5	10	5	12
	(98)	**(118)**	**(20)**	**40**
Total centrally-managed renewals expenditure	**582**	**576**	**(6)**	**23**
TOTAL RENEWALS EXPENDITURE	**4,204**	**4,031**	**(173)**	**(267)**

Statement 3.6: Analysis of renewals expenditure, Eastern

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall Renewals expenditure is broadly in line with the regulatory baseline, although there are lots of offsetting movements throughout the asset categories. For the control period to date, investment has been higher reflecting the draw down and utilisation of risk funds included in the regulatory baseline. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank so the additional spend in the control period to date is unsurprising. Investment is lower than the previous year. This includes the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly. In addition, track activity has reduced this year as has activity on centrally-managed programmes.

Regionally-managed renewals

(1) Regionally-managed Renewals expenditure is higher than the regulatory baseline this year which mainly reflects the higher like-for-like costs reported across the portfolio. Costs in the control period to date are higher than the regulatory baseline reflecting the draw down and utilisation of risk funds included in the regulatory baseline. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank so the additional spend in the control period to date is unsurprising. Investment is lower than the previous year. This includes the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly. In addition, track activity has reduced this year.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(2) Track – costs are significantly higher than the regulatory baseline this year once more, adding to the additional investment in earlier years of the control period. This includes extra costs to comply with track worker safety rules and financial underperformance recognised as a result of higher like-for-like project costs. The financial underperformance recognised this year includes issues relating to High output where the reduction in volumes outweighs the saving in cost. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Across the portfolio, higher materials expenses have increased costs. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost in the current year due to industrial action and the Queen's funeral whilst access from operators across the control period has also impacted ability to deliver planned workbanks, such as on the Manea Bridge Wheel timber project, meaning the original 28 day blockade was rejected by FOCs, and only multiple weekend access was granted, leading to increased delivery costs. Scope changes to ensure projects delivered the required asset management output and haulage issues augmented the financial underperformance. Financial outperformance reported this year includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Investment is lower than the previous year reflects reductions in both switches & crossings and plain line track delivered this year, which is especially apparent in High output.

(3) Signalling – expenditure was lower than the regulatory baseline this year, adding the to the underspend in the control period to date. This has largely been concentrated on minor works and level crossing works as funding has been reprioritised into areas that the Eastern feel would deliver better outcomes for passengers. Financial underperformance has been recognised this control period. A large element of this relates to the Cambridge resignalling project, which has experienced a number of challenges including: scope creep, contractor estimates and access challenges. In addition, Covid-19 challenges were encountered in early years of the control period including contractor prolongation costs and re-prioritisation of works impacting the portfolio. Additional welfare, labour and vehicle costs were also incurred as direct consequence of Covid-19. The current year includes underperformacne on South Kirby resignalling project as inadequate surveys and deteriorated assets required additional remediation works, which slowed progress elsewhere on the project. Investment is lower than the previous year. This includes the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly. The lower investment also reflects lower activity on Kings Cross remodelling as the project is now substantially complete which has been somewhat offset by greater level crossing activity, including Cambridge interlocking and Swinderby.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(4) Civils – overall expenditure was lower than the regulatory baseline this year, augmenting the experience of earlier years of the control period. Overall, expenditure is lower as renewals activity has been reprioritised across the asset portfolios this control period, notably with extra Earthworks and Track investment. Financial underperformance has been recognised this control period including: difficulties with the CP6 Structures Year 3 Programme in Anglia where volumes were not achieved but costs were still incurred due to difficulty securing required access or delays obtaining access, site complexity above the business plan assumptions and increased scope; challenges brought by Covid-19 illness, isolation and social distancing rules. Investment is lower than the previous year. This includes the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly.

(5) Earthworks – investment in the year was higher than the regulatory baseline continuing the trend experienced earlier in the control period. The Stonehaven derailment in 2020 led to increased focus on Network Rails management of the Earthworks asset. In addition, like-for-like project costs have been higher which caused additional costs. This financial underperformance includes: changes to working practices as badgers were found on project sites, abortive costs as sites have not been progressed due to funding constraints next control period and emergency works, including Ingatestone embankment. Investment is lower than the previous year reflecting the profile of delivery of Earthworks improvements across the control period. As with 2021/22 the largest single project was work on Morpeth embankment.

(6) Buildings – investment in the year is larger than the regulatory baseline which is the main driver of the higher spend in the control period to date. The higher costs in the control period is mostly due to the financial underperformance recognised as a result of higher like-for-like project costs. This financial underperformance includes: extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, problems with access resulting from a collapsed wall adjacent to the delivery site for Cricklewood maintenance depot, increased investment required as a result of changing work practices to adhere to Covid-19 rules, higher tender prices as markets and materials are impacted by inflation, Investment this year is higher than the previous year with contributions from works at Cricklewood and Leicester maintenance depots.

(7) Electrical power and fixed plant – investment in the current year is higher than the baseline and now means that the control period to date spend is slightly higher than the control period to date baseline. The higher costs this control period includes higher like-ofr-like project costs and so financial underperformance has been recognised this control period. This includes: delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia with volume reductions arising from constrained funding losing anticipated economies of scale on the programme, increased access requirements during Christmas for the Stratford campaign, changes in portal requirements in Morpeth, restricted access on the Shenfield-Southend re-wire programme in year one of the control period following local political pressure. Expenditure was higher this year compared to the last, with extra work on the signature overhead line mid-life refurbishment project.

(8) Property – expenditure is higher than the regulatory baseline this year but is below the baseline for the control period to date due to project reprofiling. The most significant project this year was the upgrades at Liverpool Street station west mall to help generate more property revenue in future.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to higher spend being transferred to OPEX this year, reduced ETCS as well as the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly.

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

(3) Telecoms – whilst investment is broadly in line with the regulatory baseline this year, it remains lower in the control period to date. The lower spend includes slippage on operational communications and SISS as funding has been reprioritised elsewhere. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

   a. High output – investment was broadly in line with the regulatory baseline this year but remains lower in the control period to date as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. Spend is noticeably lower than the prior year comparative which included significant investment in renewing the high output ballast cleaner system fleet.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7. Costs are noticeably lower than the previous year which included investment in replacing track plain line stoneblower machines and rail milling train purchase.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date. The primary cause of the underspend for the control period to date is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year, expenditure was, once again, lower than the regulatory baseline, continuing the trend of the control period so far. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Eastern have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Other – spend in the year is lower than the regulatory baselines which assumed a higher number of projects would be delivered in Eastern than was the case. Funding has been reprioritised elsewhere including the impact of industrial actions and financial pressures elsewhere in the plan. Spend is lower than the previous year which included investment in fleet support plant where additional facilities renewals have been identified.

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year which is partly due to the high inflation rate applied to the prior year comparative in line with Regulatory Accounting Guidelines and partly due to more of the programme outputs having been delivered by this point of the control period. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are lower than the regulatory baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but broadly in line with last year's outturn. This reflects the lower overall Signalling costs this year compared to expectation. The control period to date also shows a similar relationship to overall Signalling costs.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. The lower spend in the current year means the control period to date is now also lower then than the regulatory target. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

g. Small Plant – investment is broadly in line with the regulatory baseline this year but lower in the control period to date. To help with Network Rail's move to a more devolved structure, management of this fund was passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage. In addition, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. The lower spend in the control period to date is due to the same factors.

(8) Other – investment is lower than the regulatory baseline in the current year but higher in the control period to date, mainly due to the impact of the Phasing delay. Notable items in the Other category include:

a. ETCS – expenditure is higher than the regulatory baseline in the current year and the control period to date as a higher proportion of the programme's outputs have been delivered in the region compared to the regulatory baseline assumption. Costs are lower than the previous year which included investment in GPRS integration projects.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. The variance is largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil

g. System Operator – expenditure this year and the control period to date is broadly in line with the regulatory baseline. Costs are higher than the previous year due to differences in the phasing delivery assumed in the regulatory baseline compared to the actual profile of activity.

h. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

Eastern
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	-	-	-	16	16	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	128	99	-	679	683	-
Trans Pennine Route Upgrade	604	604	3	1,490	1,488	19
Hope Valley Capacity	57	60	(1)	75	84	(1)
Cambridge South Station Dvpt 2	15	15	-	30	30	-
Critical Stations Improvement Fund	1	-	-	3	5	-
East Coast Main Line Enhancements Programme	81	64	-	559	578	(29)
Manchester Improvements	-	1	-	1	1	-
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	-	-	-	-	-	-
St Albans Station Capacity	3	-	-	7	6	-
SFN-Freight Forecasts project	-	-	-	5	4	-
Access for All	15	11	-	37	45	-
Thameslink Resilience Programme	-	6	-	6	6	-
Midlands Hub - Continued Design and Early Development	-	(6)	-	-	-	-
Crossrail	23	2	4	93	82	(60)
Northern Hub	-	(1)	-	1	(1)	-
Restoring Your Railway	38	38	(1)	47	47	(1)
Anglia Traction PSU	1	-	1	9	4	-
EC Digital	201	221	-	307	307	-
Ely Area Capacity Enh	-	-	-	10	12	-
Darlington Station Improvements	5	5	-	8	14	-
Tactile Paving Installation	7	3	-	10	8	-
New Stations Fund	-	2	-	-	4	-
IRP Portfolio	25	27	-	25	27	-
Other	15	7	1	44	29	(2)
Total	**1,219**	**1,158**	**7**	**3,493**	**3,509**	**(77)**
Other Capital Expenditure	**5**	**-**	**-**	**164**	**-**	**-**
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	68	-	-	353	-	-
Total	68	-	-	353	-	-
Total enhancements	**1,292**	**1,158**	**7**	**4,010**	**3,509**	**(77)**
Total enhancements less Other third party funded schemes	1,224	1,158	7	3,657	3,509	(77)

Statement 3.7: Analysis of enhancement expenditure, Eastern

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the Eastern's core funder (DfT).

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Eastern's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £1,224m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£1,292m) less the PAYGO schemes funded by third parties (£68m).

(2) Enhancement expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised this control period with large contributions from Crossrail and East Coast Main Line programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)).

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls

approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in Eastern. Some notable variances at programme level include:

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

a. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. In year expenditure is greater than baseline against London to Corby Electrification (L2C) and other key outputs which has brought the control period to date largely in line with the funding baseline.

b. Trans Pennine Route Upgrade – his is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Financial out performance on Leeds Intermediate Interventions is due to efficient contractor delivery of works and risk management.

c. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. So far, works on this project have progressed slower than anticipated at Bamford and Dore area and programme prolongation delaying Entry into Service to March 2024.

d. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress greater than anticipated in year, and cumulative the programme remains on schedule for the Power Supply Upgrade Phase 2 (PSU2). Control period to date expenditure is now closer to the funding expectation. Financial underperformance has been recognised arising from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

e. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but the control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

f. Crossrail – this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east, with services now starting to run. The programme has recognised adverse financial performance as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

g. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. In the current year expenditure was lower than the baseline but the control period to date investment is broadly consistent with the funding available.

h. New Stations fund – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

i. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting rephasing assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements. The control period to date also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to other notable schemes delivered this year include Brent Cross new station development, and Sunderland station re-development.

Eastern
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23		Unit	FY23 AFC	FY23 AFV	FY23 Unit Costs	FY22 AFC	FY22 AFV	FY22 Unit Costs
Track	PL Replace Full	km	71	53	1,340	102	44	2,318
	PL Replace Partial	km	92	225	409	93	213	437
	PL High Output	km	29	28	1,036	117	92	1,272
	PL Refurbishment	km	22	163	135	25	206	121
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	63	108	583	86	120	717
	Switches & Crossing - Other	point ends	31	425	73	69	505	137
	Off Track	km/No.	51	429	119	73	657	111
	Track Other		-	-	-	-	-	-
	Total		**359**			**565**		
Signalling	Signalling Full	SEU	18	37	486	123	282	436
	Signalling Partial	SEU	23	88	261	30	192	156
	Signalling Refurb	SEU	2	23	87	9	12	750
	Level crossings	No.	60	180	333	45	110	409
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**103**			**207**		
Civils	Underbridges	m2	116	29,237	4	92	24,296	4
	Overbridges (incl BG3)	m2	34	9,124	4	12	4,982	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	7	101,102	0	17	98,055	0
	Culverts	m2	7	2,673	3	7	2,220	3
	Footbridges	m2	1	315	3	6	2,715	2
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	7	2,724	3	2	584	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**172**			**136**		
Earthworks	Earthworks - Embankments	No.	57	857	67	49	897	55
	Earthworks - Soil Cuttings	No.	8	324	25	6	445	13
	Earthworks - Rock Cuttings	No.	1	95	11	7	271	26
	Earthworks - Other	No.	-	-	-	7	13	538
	Drainage - Earthworks	m	-	309	-	1	20,086	0
	Drainage - Other	m	18	31,260	1	21	45,693	0
	TOTAL		**84**			**91**		
Buildings	Buildings (MS)	m2	1	23,505	0	1	33,560	0
	Platforms (MS)	m2	-	-	-	28	810	35
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	300	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	1	2,800	0	3	4,090	1
	Buildings (FS)	m2	7	2,545	3	3	446	7
	Platforms (FS)	m2	8	6,614	1	1	2,691	0
	Canopies (FS)	m2	1	1,005	1	2	1,265	2
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	8	1,076	7	5	1,136	4
	Lifts & Escalators (FS)	m2	1	40	25	-	-	-
	Other (FS)	m2	-	495	-	2	16,548	0
	Light Maintenance Depots	m2	2	9,415	0	10	98,270	0
	Depot Plant	m2	-	1	-	1	5	200
	Lineside Buildings	m2	7	4,278	2	13	54,504	0
	MDU Buildings	m2	14	25,212	1	17	51,298	0
	NDS Depot	m2	1	22,935	0	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**51**			**86**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	21	40	525
	mid-life refurbishment	Wire runs	86	79	1,089	121	162	747
	structure renewals	No.	34	350	97	44	492	89
	other OLE		2	49	41	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	1	1	1,000	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	2	3	667
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	3	115	26	3	116	26
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	-	2	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	12	-	1	15	67
	Signalling Power Cables	km	9	63	143	17	193	88
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**135**			**209**		
Telecoms	Customer Information Systems	No.	1	23	43	-	26	-
	Public Address	No.	1	284	4	-	69	-
	CCTV	No.	2	119	17	-	16	-
	Other Surveillance	No.	-	8	-	-	6	-
	PABX Concentrator	No.	7	7,766	1	9	5,591	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	44	-
	HMI Large	No.	-	29	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		1	41	24	7	397	18
	Other comms		-	-	-	-	-	-
	Network		1	5	200	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**13**			**16**		

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - PL Replace Full unit rate has decreased noticeably which has been driven by a change in the work bank mix compared to 2021/22 where the work bank mix drove the unit rate higher reported in last year's Regulatory Financial Statements. There has been an increase in PL Refurbishment which can be attributed to the inflationary pressures seen with materials and third party contractor costs. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Switches and Crossing Replace and Other both showed a decrease in their unit rate which has been influenced by the different mix of work completed throughout the year compared to the previous year. Last year's Regulatory Financial Statements noted that the 2021/22 unit costs for Switches & Crossings in Eastern were high due to the mix of the work undertaken so the decrease this year is expected as the mix trends towards a more normal composition. Off-track unit rate increased which can be attributed to the different work bank mix delivered. The workbank mix issue has a significant influence on the Off-track unit rate as the work can vary between assets such as fencing or longitudinal timbers.

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m cash prices unless stated

(3) Signalling – The unit rate of Signalling Full increased with the rate being driven by a signalling project at Moorgate. As mentioned previously, location and project complexity can have a large effect on the cost of work on renewals projects which is a factor at Moorgate with its central London location. Signalling Partial unit rate increased although there was only one project which delivered volumes so the sample is too small to establish any trends. The unit rate of Signalling refurb decreased significantly due to the mix of work meaning a lower rate of high percentage new refurbishment. Signalling refurbishment is categorised according to the percentage of refurbishment required and can range from 10% to 90% depending on the nature of the intervention. Naturally the higher percentage refurbishment required, the more expensive the intervention is. Another factor is that in 2022/23 there was only project which meant it was easier to influence the unit rate.

(4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – The unit rate of Earthworks Embankments has increased despite a higher proportion of cheaper Maintain work being completed. Within Earthworks categories there are three subcategories; Maintain, Renew and Refurb. All three offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. As mentioned earlier, location and complexity can also have a large effect on the unit rate. Another key factor which has driven unit rates higher is the inflationary pressures Network Rail has experience with materials and contractor costs. Increases in the unit rate of Earthworks Soil Cuttings unit rate can also be attributed to inflationary issues, reflecting cost increases across the wider economy.

(6) Buildings – Depot Plant unit rate increased significantly, however there was only one project which delivered volumes so meaningful data trends cannot be identified.

(7) Electrical Power and Fixed Plant – Mid-Life Refurbishment unit rate has increased through the MK1 OLE Mid Life Refurbishment Project, however it is the only project so the sample size means meaningful analysis cannot be produced. The unit rate of Points heaters decreased however like Mid-life Refurbishment, only one project was delivered making the establishment of meaningful data trends impossible. Signalling Power Cables unit rate increased and can be attributed to inflationary pressures related to materials and third party contractor costs.

(8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Eastern
Statement 4: Regulatory financial position
Cash prices

Regulatory asset base (RAB)
2022-23

	£m
Opening RAB (2020-21 Actual prices)	**21,426**
Indexation to 2021-22 prices	23,719
RAB additions	
Renewals expenditure	1,096
Enhancements expenditure	-
Less amortisation	(1,096)
Property Sales	(13)
Closing RAB	**23,706**

Net debt

	£m
Opening net debt	**15,044**
Income	(3,364)
Expenditure	2,822
Financing Costs - Government borrowing	220
Financing Costs - index linked debt	859
Financing Costs - Other	35
Corporation tax	(14)
Working capital	(51)
Closing net debt	**15,551**

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Eastern part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £1.1bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually results in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the Eastern Region and how it has moved during the year.

(8) Network Rail's debt attributable to Eastern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

(11)Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12)Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

North West & Central
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	1,731	1,701	30	-	1,594
Franchised track access charges	581	597	(16)	(19)	596
Other Single Till Income	139	145	(6)	(9)	142
Total Income	**2,451**	**2,443**	**8**	**(28)**	**2,332**
Operating expenditure					
Network operations	157	152	(5)	(5)	178
Support costs	254	228	(26)	23	277
Traction electricity, industry costs and rates	216	229	13	(1)	190
Maintenance	495	440	(55)	4	508
Schedule 4	190	109	(81)	(85)	63
Schedule 8	5	3	(2)	(2)	(64)
	1,317	**1,161**	**(156)**	**(66)**	**1,152**
Capital expenditure					
Renewals	850	798	(52)	(21)	928
Enhancements	304	266	(38)	(5)	366
	1,154	**1,064**	**(90)**	**(26)**	**1,294**
Risk expenditure					
Risk (Centrally-held)	-	56	56	-	-
Risk (Route-controlled)	-	50	50	-	-
Risk (Contingent asset management funding)	-	54	54	-	-
	-	**160**	**160**	**-**	**-**
Other expenditure					
Financing costs	879	469	(410)	-	654
Corporation tax	(11)	18	29	-	-
	868	**487**	**(381)**	**-**	**654**
Total expenditure	**3,339**	**2,872**	**(467)**	**(92)**	**3,100**
Total Financial Out/(under) performance				**(120)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	5,778	5,841	(63)	-
Franchised track access charges	2,173	2,301	(128)	(55)
Other Single Till Income	501	614	(113)	(118)
Total Income	**8,452**	**8,756**	**(304)**	**(173)**
Operating expenditure				
Network operations	607	580	(27)	(29)
Support costs	913	883	(30)	29
Traction electricity, industry costs and rates	725	796	71	(2)
Maintenance	1,806	1,701	(105)	(7)
Schedule 4	348	384	36	24
Schedule 8	(56)	39	95	95
	4,343	**4,383**	**40**	**110**
Capital expenditure				
Renewals	3,039	2,934	(105)	(114)
Enhancements	1,135	1,119	(16)	14
	4,174	**4,053**	**(121)**	**(100)**
Risk expenditure				
Risk (Centrally-held)	-	131	131	-
Risk (Route-controlled)	-	117	117	-
Risk (Contingent asset management funding)	-	144	144	-
	-	**392**	**392**	**-**
Other expenditure				
Financing costs	2,278	1,883	(395)	-
Corporation tax	-	39	39	-
	2,278	**1,922**	**(356)**	**-**
Total expenditure	**10,795**	**10,750**	**(45)**	**10**
Total Financial Out/(under) performance				**(163)**

Statement 1: Summary of regulatory financial performance, North West & Central

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of North West & Central's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.3bn higher than the regulatory baseline and £0.2bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year is mostly due to higher than anticipated financing costs. The control period position is due to a variety of movements including higher financing costs and reduced income partly offset by the presence of risk funds and enhancements deferrals.

(2) This statement also shows that Network Rail has recognised financial underperformance of £120m this year and £163m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, franchised track access charges and other single till income being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.

(3) Income – Grant income in the year was higher than the regulatory baseline but in the line for the control period to date. Network grants are higher reflecting different utilisation of the total DfT network grant in North West & Central compared to the regulatory baseline's expectation whilst Internal financing grants are lower as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Grants are higher this year reflecting the phasing of activity in the region compared to the regulatory baselines, including additional performance regime (schedule 4 & 8) costs. Variances in Grant income is outside of the scope of financial performance. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year were lower than the baseline due to lower variable usage charges, as fewer trains ran in the year due industrial action and some of the operators in the region running fewer services than before the Covid-19 pandemic. So far this control period, less income has been received than the regulatory baseline expected. This is mainly due to lower variable track income, owing to the aforementioned industrial action this year, but also due to the reduced level of services ran during the Covid-19 pandemic period, and lower market prices for electricity this control period. Franchised track access income is lower than the previous year. This is partly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period to date is below the regulatory baseline for the same reason. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is lower than the previous year. This is mainly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs are slightly higher than the regulatory baseline this year mainly due to extra costs to meet changing safety standards. Costs are higher in the control period to date which includes the aforementioned safety standards but also extra investment in the 21st century Operations programme which was not included in the baseline and Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. Costs are lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level but also a reduction in investment in the aforementioned 21st century Operations programme. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are higher than the regulatory baseline for similar reasons but also include investment in train performance improvement initiatives along with Covid-19 related expenditure. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year mainly due to lower Business rates as the government postponed quinquennial increases in the wake of Covid-19. The lower costs in the control period to date reflect his along with lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year reflecting higher market prices for electricity. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year, mainly as a result of additional reactive maintenance works, track worker safety programme and inflationary pressures on materials prices. The higher costs in the control period to date are largely driven by the same factors, along with the inheritance of functions via PPF reform and responding to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are broadly in line with the regulatory baseline this year. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets. Schedule 8 costs are discussed in more detail in Statement 3.5.

(12) Overall, Renewals expenditure is higher than the regulatory baseline in the current year and the control period to date. Th higher control period to date expenditure is mainly due to higher like-for-like project costs. This financial underperformance has arisen from various factors including: the impact of Covid-19 on project delivery, changes in scope to signalling programmes to minimise risk of asset failure and impact of industrial action. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year is broadly in line with the regulatory baseline and slightly behind in the control period to date. The highest investment in this year in North West & Central was on East West Rail. Enhancement investment is set out in more detail in Statement 3.7.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(14)Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16)Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central
Statement 2: Analysis of income

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	225	224	1	-	237
Variable usage charge	53	72	(19)	(19)	61
Electrification asset usage charge	5	6	(1)	(1)	6
Capacity charge	-	-	-	-	-
Open access income	1	-	1	1	-
Managed stations long term charge	23	23	-	-	25
Franchised stations long term charge	47	47	-	-	50
Traction electricity charges	120	118	2	-	94
Schedule 4 access charge supplement	77	77	-	-	91
	551	**567**	**(16)**	**(19)**	**564**
Other single till income					
Freight income					
Freight variable usage charge	18	19	(1)	(1)	20
Freight other income	1	-	1	1	-
	19	**19**	**-**	**-**	**20**
Stations income					
Managed stations qualifying expenditure	30	31	(1)	(1)	31
Franchised stations lease income	8	7	1	1	8
	38	**38**	**-**	**-**	**39**
Facility and financing charges					
Facility charges	12	14	(2)	(2)	13
	12	**14**	**(2)**	**(2)**	**13**
Property income					
Property rental	38	48	(10)	(10)	35
Property sales	1	4	(3)	(3)	8
	39	**52**	**(13)**	**(13)**	**43**
Depots Income	**16**	**18**	**(2)**	**(2)**	**18**
Other income	**2**	**1**	**1**	**1**	**2**
Freight traction electricity charges	**4**	**2**	**2**	**-**	**2**
Total other single till income	**130**	**144**	**(14)**	**(16)**	**137**
Total Regionally-managed income	**681**	**711**	**(30)**	**(35)**	**701**
Centrally-managed income					
Network grant	1,462	1,346	116	-	1,289
Internal financing grant	142	199	(57)	-	144
External financing grant	116	116	-	-	138
BTP grant	22	22	-	-	23
Corporation tax grant	(11)	18	(29)	-	-
Infrastructure cost charges	9	9	-	-	9
Schedule 4 access charge supplement	21	21	-	-	23
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	1,761	**1,731**	**30**	**-**	**1,626**
Other single till income					
Property income					
Property rental	3	-	3	2	2
Property sales	6	1	5	5	3
	9	**1**	**8**	**7**	**5**
Total other single till income	**9**	**1**	**8**	**7**	**5**
Total centrally-managed income	**1,770**	**1,732**	**38**	**7**	**1,631**
Total income	**2,451**	**2,443**	**8**	**(28)**	**2,332**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	932	936	(4)	-
Variable usage charge	223	269	(46)	(46)
Electrification asset usage charge	19	22	(3)	(3)
Capacity charge	-	-	-	-
Open access income	1	2	(1)	(1)
Managed stations long term charge	89	88	1	1
Franchised stations long term charge	179	182	(3)	(3)
Traction electricity charges	205	231	(26)	-
Schedule 4 access charge supplement	264	267	(3)	(3)
	1,912	**1,997**	**(85)**	**(55)**
Other single till income				
Freight income				
Freight variable usage charge	67	66	1	1
Freight other income	1	1	-	1
	68	**67**	**1**	**2**
Stations income				
Managed stations qualifying expenditure	113	118	(5)	(5)
Franchised stations lease income	29	27	2	1
	142	**145**	**(3)**	**(4)**
Facility and financing charges				
Facility charges	50	54	(4)	(4)
	50	**54**	**(4)**	**(4)**
Property income				
Property rental	83	139	(56)	(56)
Property sales	13	27	(14)	(16)
	96	**166**	**(70)**	**(72)**
Depots Income	**63**	**68**	**(5)**	**(5)**
Other income	**7**	**4**	**3**	**3**
Freight traction electricity charges	**6**	**2**	**4**	**-**
Total other single till income	**432**	**506**	**(74)**	**(80)**
Total Regionally-managed income	**2,344**	**2,503**	**(159)**	**(135)**
Centrally-managed income				
Network grant	4,616	4,482	134	-
Internal financing grant	555	710	(155)	-
External financing grant	524	528	(4)	-
BTP grant	83	83	-	-
Corporation tax grant	-	38	(38)	-
Infrastructure cost charges	38	37	1	-
Schedule 4 access charge supplement	65	67	(2)	-
Traction electricity charges	158	200	(42)	-
Freight traction electricity charges	2	3	(1)	-
	6,041	**6,148**	**(107)**	**-**
Other single till income				
Property income				
Property rental	54	51	3	3
Property sales	13	54	(41)	(41)
	67	**105**	**(38)**	**(38)**
Total other single till income	**67**	**105**	**(38)**	**(38)**
Total centrally-managed income	**6,108**	**6,253**	**(145)**	**(38)**
Total income	**8,452**	**8,756**	**(304)**	**(173)**

Statement 2: Analysis of income, North West & Central

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is broadly in line with the current year regulatory baseline. Income is higher than last year as a result of higher network grant receipts. Income for the control period to date is lower than the regulatory baseline, due to lower internal financing grants. Property income and a lower variable usage charges as a direct consequence of Covid-19 are also a contributory factor to the lower income received. This is subsequently reflected in the financial underperformance for both the year, and the control period to date.

Regionally-managed income

(1) Total Regionally-managed income is lower than baseline this year, due to a combination of the on-going impact of Covid recovery on service levels and property income. Regionally-managed income is lower than last year due to a combination of reduced variable track access arising from industrial action, lower property sales income which can be erratic given their nature and the high inflation applied to previous year comparatives (November 2022 CPI: 10.7%) compared to the uplift applied to track access contracts (November 2021 CPI: 5.1%). Regionally-managed Income for the control period to date is lower than the regulatory baseline, mainly due to the impact of Covid-19 upon Property income and Variable track access charges.

(2) Infrastructure cost charges - fixed charge income was broadly consistent with the baseline this year and the control period to date. The minor variances are mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income appears lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, most operators in North West & Central are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand. Income is lower than the previous year. This is partly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021) and also due to the aforementioned industrial action this year.

(4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is broadly in line with the regulatory assumption but is lower in the control period to date as prices so far this control period have generally been lower than the regulatory baseline expected. In 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases this year, some had not pre-purchased future requirements and were instead subject to the sharp increases in market prices seen this year. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income was lower than the previous year. This is mainly due to planned reductions as reflected in the regulatory baseline for this year but also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

(6) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(7) Property sales – the current year is slightly lower than the regulatory baseline this year and lower across the control period. Property sales by their nature are erratic as properties can only be sold once and, therefore, Network Rail needs to make sure any transaction is supported by strong business cases. The bespoke nature of many of the properties also mean there is a relatively limited market to sell to. The higher property sales in the prior year also helps demonstrate the variability in annual sales.

Centrally-managed income

(1) Aggregate Centrally-managed income is slightly higher than the CP6 baseline this year and the prior year comparative mainly due to higher grants. For the control period to date, total Centrally-managed income is lower due to lower grants, Traction electricity income and Property sales.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which offsets reduced income in earlier years of the control period. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in this region compared to the regulatory baseline's expectation. Income is higher than the previous year due to extra expenditure recognised this year, particularly within the performance regime (Schedule 4 & Schedule 8).

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(6) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(7) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(8) Property sales – sales are higher than the regulatory baseline in the current year but, as reported in previous years' Regulatory Financial Statements, remain significantly behind the control period to date expectation. Property sales by their nature are erratic as properties can only be sold once and, therefore, Network Rail needs to make sure any transaction is supported by strong business cases. The bespoke nature of many of the properties also mean there is a relatively limited market to sell to.

North West & Central
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	151	146	(5)	(5)	170
Maintenance	467	428	(39)	14	495
Support costs	90	73	(17)	(17)	115
Traction electricity, industry costs and rates	209	223	14	(1)	184
Schedule 4	190	94	(96)	(100)	65
Schedule 8	3	-	(3)	(3)	(67)
	1,110	**964**	**(146)**	**(112)**	**962**
Capital expenditure					
Renewals	758	662	(96)	(23)	779
Enhancements	304	266	(38)	(5)	364
	1,062	**928**	**(134)**	**(28)**	**1,143**
Total Regionally-managed expenditure	**2,172**	**1,892**	**(280)**	**(140)**	**2,105**
Centrally-managed expenditure					
Operating expenditure					
Network operations	6	6	-	-	8
Maintenance	28	12	(16)	(10)	13
Support costs	164	155	(9)	40	162
Traction electricity, industry costs and rates	7	6	(1)	-	6
Schedule 4	-	15	15	15	(2)
Schedule 8	2	3	1	1	3
	207	**197**	**(10)**	**46**	**190**
Capital expenditure					
Renewals	92	136	44	2	149
Enhancements	-	-	-	-	2
	92	**136**	**44**	**2**	**151**
Risk Expenditure	**-**	**160**	**160**	**-**	**-**
Other					
Financing costs	879	469	(410)	-	654
Taxation	(11)	18	29	-	-
	868	**487**	**(381)**	**-**	**654**
Total centrally-managed expenditure	**1,167**	**980**	**(187)**	**48**	**995**
Total expenditure	**3,339**	**2,872**	**(467)**	**(92)**	**3,100**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	583	555	(28)	(28)
Maintenance	1,730	1,641	(89)	10
Support costs	360	259	(101)	(100)
Traction electricity, industry costs and rates	377	416	39	(3)
Schedule 4	349	325	(24)	(35)
Schedule 8	(38)	27	65	65
	3,361	**3,223**	**(138)**	**(91)**
Capital expenditure				
Renewals	2,593	2,439	(154)	(139)
Enhancements	1,108	1,113	5	(7)
	3,701	**3,552**	**(149)**	**(146)**
Total Regionally-managed expenditure	**7,062**	**6,775**	**(287)**	**(237)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	24	25	1	(1)
Maintenance	76	60	(16)	(17)
Support costs	553	624	71	129
Traction electricity, industry costs and rates	348	380	32	1
Schedule 4	(1)	59	60	59
Schedule 8	(18)	12	30	30
	982	**1,160**	**178**	**201**
Capital expenditure				
Renewals	446	495	49	25
Enhancements	27	6	(21)	21
Other	-	-	-	-
	473	**501**	**28**	**46**
Risk Expenditure	**-**	**392**	**392**	**-**
Other				
Financing costs	2,278	1,883	(395)	-
Taxation	-	39	39	-
	2,278	**1,922**	**(356)**	**-**
Total centrally-managed expenditure	**3,733**	**3,975**	**242**	**247**
Total expenditure	**10,795**	**10,750**	**(45)**	**10**

Statement 3: Analysis of expenditure, North West & Central

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, mainly due to higher financing costs. The control period to date position is broadly similar to the regulatory baseline as higher financing costs have been more offset by gains on the performance regime and presence of risk funds. Costs are higher than the previous year. Whilst there are a number of variances the largest are the increases in financing costs and performance regimes.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year due to industrial action, higher operating costs and higher like-for-like renewals costs. Costs are higher in the control period to date mainly due to higher operating costs. Costs are higher than last year mainly due to higher net payouts under the performance regime. Regionally-managed expenditure is included in the remainder of Statement 3. Financial underperformance was recognised this year, most notably from the impact of industrial action.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has offset the higher financing costs experienced this year. Savings have also been made across a number of central functions. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

North West & Central
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	61	61	-	-	65
Operations Management	38	33	(5)	(5)	42
Controllers	6	7	1	1	7
Electrical control room operators	5	3	(2)	(2)	4
	110	**104**	**(6)**	**(6)**	**118**
Non signaller expenditure					
Mobile operations managers	9	9	-	-	10
Managed stations	23	19	(4)	(4)	22
Performance	(9)	(7)	2	2	(10)
Other	18	21	3	3	30
Total Regionally-managed Operations expenditure	**151**	**146**	**(5)**	**(5)**	**170**
Centrally-managed Operations expenditure					
Network Services	6	6	-	-	8
Total centrally-managed Operations expenditure	**6**	**6**	**-**	**-**	**8**
Total operations expenditure	**157**	**152**	**(5)**	**(5)**	**178**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	234	234	-	-
Operations Management	140	127	(13)	(13)
Controllers	25	28	3	3
Electrical control room operators	14	11	(3)	(3)
	413	**400**	**(13)**	**(13)**
Non signaller expenditure				
Mobile operations managers	36	35	(1)	(1)
Managed stations	81	75	(6)	(7)
Performance	(32)	(27)	5	5
Other	85	72	(13)	(12)
Total Regionally-managed Operations expenditure	**583**	**555**	**(28)**	**(28)**
Centrally-managed Operations expenditure				
Network Services	24	25	1	(1)
Total centrally-managed Operations expenditure	**24**	**25**	**1**	**(1)**
Total operations expenditure	**607**	**580**	**(27)**	**(29)**

Statement 3.1: Analysis of operations expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-Managed – overall operations costs are slightly higher than the regulatory baseline this year mainly due to extra costs to meet changing safety standards. Costs are higher in the control period to date which includes the aforementioned safety standards but also extra investment in the 21st century Operations programme which was not included in the baseline and Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. Costs are lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level but also a reduction in investment in the aforementioned 21st century Operations programme.

(2) Operations management - costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic. Costs are lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Managed stations – once again, costs are higher than the regulatory baseline. This includes staff at stations to offer a better service to the travelling public. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are broadly similar to the previous year.

(4) Other – whilst costs are broadly similar to the regulatory baseline this year, they are higher in the control period to date. This is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6. This also accounts for the reduction in expenditure in this category compared to the previous year.

Statement 3.1: Analysis of operations expenditure, North West & Central – continued

In £m cash prices unless stated

Centrally-managed operations expenditure

1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date, as well as the previous year.

North West & Central
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	183	189	6	5	201
Signalling & Telecoms	73	76	3	3	83
Civils	64	50	(14)	5	58
Buildings	25	24	(1)	4	29
Electrical power and fixed plant	44	40	(4)	(4)	44
Other network operations	78	49	(29)	1	80
	467	**428**	**(39)**	**14**	**495**
Centrally-managed maintenance expenditure					
Telecoms	6	8	2	2	5
Route Services - Asset Information	7	9	2	2	9
STE Maintenance	1	1	-	-	1
Property	-	-	-	-	-
Route Services - Other	12	(3)	(15)	(12)	(2)
Other	2	(3)	(5)	(2)	-
	28	**12**	**(16)**	**(10)**	**13**
Total maintenance expenditure	**495**	**440**	**(55)**	**4**	**508**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	717	723	6	6
Signalling & Telecoms	294	291	(3)	(3)
Civils	200	186	(14)	47
Buildings	98	96	(2)	5
Electrical power and fixed plant	157	151	(6)	(5)
Other network operations	264	194	(70)	(40)
	1,730	**1,641**	**(89)**	**10**
Centrally-managed maintenance expenditure				
Telecoms	21	28	7	6
Route Services - Asset Information	31	32	1	1
STE Maintenance	5	4	(1)	-
Property	4	-	(4)	(4)
Route Services - Other	14	(4)	(18)	(19)
Other	1	-	(1)	(1)
	76	**60**	**(16)**	**(17)**
Total maintenance expenditure	**1,806**	**1,701**	**(105)**	**(7)**

Statement 3.2: Analysis of maintenance expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, maintenance costs are higher than the regulatory baseline this year and the control period to date owing to additional expenses in both Regionally-managed and Centrally-managed areas as set out below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, mainly as a result of additional reactive maintenance works and track worker safety programme. The higher costs in the control period to date are largely driven by the same factors, along with the inheritance of functions via PPF reform and responding to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Track – track maintenance costs are the largest component of North West & Central's maintenance costs. This year, costs are broadly in line with the regulatory baseline, continuing the trend of the control period to date. Costs are lower than the previous year. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(3) Signalling & telecoms – costs are broadly in line with the regulatory baseline for the current year and the control period to date. Costs are lower than the previous year. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, North West & Central - continued

In £m cash prices unless stated

(4) Civils – costs were higher than the regulatory baseline this year due to reactive maintenance expenses being higher than the regulatory expectation. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. The higher costs in the control period are driven by the variance experienced in the current year, with financial outperformance recognised due to savings in inspection costs including successful settlement of legacy commercial claims and greater than expected efficiencies on contract negotiations. Costs are higher than the previous year mainly due to additional reactive maintenance costs, reflecting the variable nature of these costs.

(5) Other network operations – costs are higher than the regulatory baseline this year. These extra costs include: inheritance of property through PPF, increases in costs were realised from DEAM compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year as well as the costs occurred in our response to Covid-19 and preparation for hosting the Commonwealth Games in this Region.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

North West & Central
Statement 3.3: Analysis of support expenditure

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	4	3	(1)	(1)	5
Finance	3	2	(1)	(1)	4
Accommodation	18	21	3	3	22
Utilities	24	20	(4)	(4)	23
Other	41	27	(14)	(14)	61
	90	**73**	**(17)**	**(17)**	**115**
Centrally-managed Support costs					
Finance & Legal	9	14	5	5	13
Communications	4	6	2	2	6
Human Resources	5	8	3	3	9
System Operator	12	13	1	1	12
Property	2	5	3	3	2
Telecoms	16	13	(3)	(3)	20
Network Services	-	-	-	-	-
Safety Technical and Engineering	9	10	1	4	11
RS - IT and Business Services	31	33	2	2	36
RS - Asset Information	4	8	4	(7)	5
RS - Directorate	1	8	7	7	10
Other corporate functions	-	1	1	10	6
Insurance	(3)	13	16	16	9
OPEX/CAPEX Adjustment	49	17	(32)	-	34
Group costs	25	6	(19)	(3)	(11)
	164	**155**	**(9)**	**40**	**162**
Total support costs	**254**	**228**	**(26)**	**23**	**277**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	14	11	(3)	(4)
Finance	11	7	(4)	(3)
Accommodation	74	77	3	3
Utilities	84	77	(7)	(6)
Other	177	87	(90)	(90)
	360	**259**	**(101)**	**(100)**
Centrally-managed Support costs				
Finance & Legal	39	50	11	11
Communications	17	20	3	4
Human Resources	25	29	4	4
System Operator	39	47	8	8
Property	6	11	5	4
Telecoms	63	61	(2)	(2)
Network Services	10	13	3	3
Safety Technical and Engineering	35	38	3	6
RS - IT and Business Services	123	129	6	5
RS - Asset Information	14	27	13	3
RS - Directorate	23	25	2	2
Other corporate functions	15	19	4	4
Insurance	18	46	28	28
OPEX/CAPEX Adjustment	134	65	(69)	-
Group costs	(8)	44	52	49
	553	**624**	**71**	**129**
Total support costs	**913**	**883**	**(30)**	**29**

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to additional costs in both Regionally-managed and Centrally-managed activities as set out below. Costs in the control period to date are higher than the regulatory baseline as greater Regionally-managed expenses have been partly offset by savings in Centrally-managed categories. Costs are higher than the previous year including a greater number of projects being classified as opex rather than capex and the impact of workforce reform savings recognised centrally last year.

Regionally-managed support costs

(1) Variances in the total Regionally-managed support costs compared to the regulatory baseline this year and the control period to date as well as variances to the prior year are all mainly due to additional costs reported in Other, as explained below.

(2) Utilities – costs are higher than the baseline this year reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. The higher costs in the control period to date are mostly due to the higher costs experienced this year.

(3) Other – costs were significantly higher than the regulatory baseline this year. This is primarily due to implementation of the PPF programme, costs associated with preparing for Birmingham in this Region to host the Commonwealth Games and workforce reform implementation costs which are expected to reverse next year. Costs are higher in the control period as higher costs this year have augmented additional expenses previous years. This included investment in Project Alpha - an on-going programme developed in response to train performances falling below target, and Covid-19 related expenditure, such as PPE purchases and additional vehicle hire. Costs are lower than the previous year which included high levels of investment in Project Alpha.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher workforce reform implementation costs have been partially offset by savings arising from workforce reform and from reduced insurance expenses. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Communications – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(5) System Operator – costs are broadly in line with the regulatory baseline, with savings recognised across the control period to date. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(6) Property – costs are lower than the regulatory baseline this year continuing the trend for the control period to date. The current year reflects savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The control period to date position also benefits from the favourable settlement of a long-running commercial dispute in the 2019/20. Costs are lower than the previous year reflecting the recognition of savings from workforce reform programmes.

(7) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

(9) Technical Authority – costs are broadly in line with the regulatory baseline mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and building on savings recognised in earlier years of the control period. These savings offset costs reported this year for support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(10) Route Services – IT and Business Services – costs are generally in line with the regulatory baseline for the year and the control period to date. Costs are lower than the prior year comparative. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories, flexed for activity. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(12) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(13) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(15) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

(16) Group – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

North West & Central
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	125	120	(5)	-	95
Business rates	61	81	20	-	65
British transport police costs	23	22	(1)	(1)	24
	209	**223**	**14**	**(1)**	**184**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	3	2	(1)	-	2
RDG membership costs	1	1	-	-	1
RSSB costs	3	3	-	-	3
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	7	**6 -**	**1**	**-**	**6**
Total traction electricity, industry costs and rates	**216**	**229**	**13**	**(1)**	**190**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	211	235	24	-
Business rates	120	138	18	-
British transport police costs	46	43	(3)	(3)
	377	**416**	**39**	**(3)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	161	203	42	-
Business rates	122	111	(11)	-
British transport police costs	39	40	1	1
ORR licence fee and railway safety levy	9	10	1	-
RDG membership costs	3	3	-	-
RSSB costs	13	13	-	-
Reporters fees	1	-	(1)	-
Other industry costs	-	-	-	-
	348	**380**	**32**	**1**
Total traction electricity, industry costs and rates	**725**	**796**	**71**	**(2)**

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year due to delays in increasing Business rates. The control period to date position also benefits from cheaper Traction electricity in the early years of the control period which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year reflecting increases in the market price of electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are slightly higher than the regulatory expectation reflecting higher market prices this year, as widely-reported in the media this year. The impact would have been greater but many of the operators had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs remain lower across the control period to date reflecting the difference between actual market prices and the regulatory assumption of expected market price increases. Costs are higher than last year as not all operators had pre-purchased electricity requirements and so were subject to rising market prices this year. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m cash prices unless stated

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. This is also driving the control period to date benefit. Costs are lower than the previous year. Whilst in cash terms the costs have increased, the inflationary uplift factor was lower than the exceptionally high November 2022 CPI used to inflate the prior year comparative per the Regulatory Accounting Guidelines. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period to date with some additional costs incurred through provision of British Transport Police resources over the core budget to offer increased safety for the travelling public.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	190	94	(96)	(100)	65
Access charge supplement Income	(77)	(77)	-	-	(91)
Net (income)/cost	**113**	**17**	**(96)**	**(100)**	**(26)**
Schedule 8					
Performance element income	3	-	(3)	(3)	(68)
Performance element costs	-	-	-	-	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**3**	**-**	**(3)**	**(3)**	**(67)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	15	15	15	(2)
Access charge supplement Income	(21)	(21)	-	-	(23)
Net (income)/cost	**(21)**	**(6)**	**15**	**15**	**(25)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	2	3	1	1	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**2**	**3**	**1**	**1**	**3**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	190	109	(81)	(85)	63
Access charge supplement Income	(98)	(98)	-	-	(114)
Net (income)/cost	**92**	**11**	**(81)**	**(85)**	**(51)**
Schedule 8					
Performance element income	3	-	(3)	(3)	(68)
Performance element costs	2	3	1	1	4
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**5**	**3**	**(2)**	**(2)**	**(64)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	349	325	(24)	(35)
Access charge supplement Income	(264)	(267)	(3)	(3)
Net (income)/cost	**85**	**58**	**(27)**	**(38)**
Schedule 8				
Performance element income	(128)	-	128	128
Performance element costs	90	27	(63)	(63)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(38)**	**27**	**65**	**65**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(1)	59	60	59
Access charge supplement Income	(65)	(67)	(2)	-
Net (income)/cost	**(66)**	**(8)**	**58**	**59**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(18)	12	30	30
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(18)**	**12**	**30**	**30**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	348	384	36	24
Access charge supplement Income	(329)	(334)	(5)	(3)
Net (income)/cost	**19**	**50**	**31**	**21**
Schedule 8				
Performance element income	(128)	-	128	128
Performance element costs	72	39	(33)	(33)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(56)**	**39**	**95**	**95**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Overall Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs compared to the previous year Despite this, net costs are favourable in the control period to date reflecting savings made in the earlier years of the control period. This is also behind the higher costs in the control period to date, which has negated some of the savings made earlier in the control period, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are broadly in line with the regulatory baseline this year. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central – continued

In £m cash prices unless stated

(1) Schedule 8 costs were broadly in line with the regulatory baseline this year. The control period to date remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

(3) Schedule 8 – this year's cost is similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

North West & Central
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	37	39	2	-	59
PL Replace Partial	59	26	(33)	-	56
PL High Output	27	27	-	-	26
PL Refurbishment	9	25	16	-	10
PL Track Slab Track	-	2	2	-	-
Switches & Crossing - Replace	27	14	(13)	-	23
Switches & Crossing - Other	9	11	2	-	6
Off Track	21	11	(10)	-	20
Track Other	9	2	(7)	-	4
	198	**157**	**(41)**	**(1)**	**204**
Signalling					
Signalling Full	92	138	46	0	99
Signalling Partial	3	2	(1)	0	(1)
Signalling Refurb	20	64	44	0	18
Level crossings	10	6	(4)	0	12
Minor works	69	54	(15)	0	73
Other	0	2	2	0	-
	194	**266**	**72**	**23**	**201**
Civils					
Underbridges	37	38	1	-	40
Overbridges	9	13	4	-	9
Major structures	(3)	-	3	-	2
Tunnels	6	7	1	-	8
Minor works	32	21	(11)	-	30
Other	9	5	(4)	-	16
	90	**84**	**(6)**	**(9)**	**105**
Earthworks					
Earthworks - Embankments	14	14	-	-	24
Earthworks - Soil Cuttings	24	22	(2)	-	22
Earthworks - Rock Cuttings	2	1	(1)	-	5
Earthworks - Other	6	2	(4)	-	10
	46	**39**	**(7)**	**(3)**	**61**
Buildings					
Managed stations	14	10	(4)	-	7
Franchised stations	52	31	(21)	-	49
Light maint depots	6	9	3	-	6
Depot plant	-	-	-	-	-
Lineside buildings	4	2	(2)	-	6
MDU buildings	6	2	(4)	-	4
Other	-	-	-	-	-
	82	**54**	**(28)**	**(4)**	**72**
Electrical power and fixed plant					
AC distribution	5	9	4	-	1
Overhead Line	24	10	(14)	-	59
DC distribution	17	1	(16)	-	9
Conductor rail	-	1	1	-	-
Signalling Power Supplies	21	12	(9)	-	18
Other	-	-	-	-	-
Fixed plant	11	1	(10)	-	2
	78	**34**	**(44)**	**(11)**	**89**
Drainage					
Drainage (Track)	31	20	(11)	-	20
Drainage (Earthworks)	5	4	(1)	-	6
Drainage (Resilience)	-	-	-	-	-
	36	**24**	**(12)**	**(18)**	**26**
Property					
Property	34	4	(30)	-	21
	34	**4**	**(30)**	**-**	**21**
Total Regionally-managed renewals expenditure	**758**	**662**	**(96)**	**(23)**	**779**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	4	-	(4)	-	-
	4	**-**	**(4)**	**(4)**	**-**
Telecoms					
Operational communications	2	7	5	-	2
Network	9	6	(3)	-	3
SISS	3	8	5	-	3
Projects and other	1	-	(1)	-	2
Non-route capital expenditure	15	15	-	-	16
	30	**36**	**6**	**(1)**	**26**
Wheeled plant and machinery					
High output	2	2	-	-	6
Incident response	-	-	-	-	-
Infrastructure monitoring	1	5	4	-	1
Intervention	1	6	5	-	3
Materials delivery	3	6	3	-	2
On track plant	1	2	1	-	-
Seasonal	1	5	4	-	1
Other	5	-	(5)	-	8
	14	**26**	**12**	**-**	**21**
Route Services					
Business Improvement	11	-	(11)	-	15
IT Renewals	5	21	16	-	10
Asset Information	2	1	(1)	-	2
Other	2	4	2	-	3
	20	**26**	**6**	**-**	**30**
STE Renewals					
Intelligent infrastructure	15	13	(2)	-	19
Faster Isolations	4	18	14	-	29
Centrally Managed Signalling Costs	1	3	2	-	1
Research and development	11	13	2	-	10
Integrated Management System (Incl. BCR)	-	4	4	-	-
Other National SCADA Programmes	1	2	1	-	4
Small plant	2	2	-	-	2
Other	17	2	(15)	-	18
	51	**57**	**6**	**-**	**83**
Property					
Property	1	7	6	-	1
	1	**7**	**6**	**-**	**1**
Other renewals					
ETCS	-	3	3	-	1
Digital Railway	5	5	-	-	4
Civils & Drainage - Insurance Fund	1	7	6	8	-
Buildings - Insurance Fund	1	4	3	-	-
OPEX/CAPEX Adjustment	(49)	(17)	32	-	(34)
Phasing overlay	-	(27)	(27)	-	-
System Operator	6	6	-	-	6
Other renewals	8	3	(5)	(1)	11
	(28)	**(16)**	**12**	**7**	**(12)**
Total centrally-managed renewals expenditure	**92**	**136**	**44**	**2**	**149**
TOTAL RENEWALS EXPENDITURE	**850**	**798**	**(52)**	**(21)**	**928**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	186	171	(15)	-
PL Replace Partial	182	86	(96)	-
PL High Output	96	94	(2)	-
PL Refurbishment	28	95	67	-
PL Track Slab Track	-	2	2	-
Switches & Crossing - Replace	106	62	(44)	-
Switches & Crossing - Other	22	48	26	-
Off Track	63	46	(17)	-
Track Other	20	4	(16)	-
	703	**608**	**(95)**	**(41)**
Signalling				
Signalling Full	309	435	126	-
Signalling Partial	11	12	1	-
Signalling Refurb	64	117	53	-
Level crossings	33	43	10	-
Minor works	195	196	1	-
Other	-	2	2	-
	612	**805**	**193**	**2**
Civils				
Underbridges	131	142	11	-
Overbridges	32	43	11	-
Major structures	-	-	-	-
Tunnels	31	41	10	-
Minor works	123	89	(34)	-
Other	48	47	(1)	-
	365	**362**	**(3)**	**(14)**
Earthworks				
Earthworks - Embankments	75	61	(14)	-
Earthworks - Soil Cuttings	86	83	(3)	-
Earthworks - Rock Cuttings	17	6	(11)	-
Earthworks - Other	25	12	(13)	-
	203	**162**	**(41)**	**(5)**
Buildings				
Managed stations	34	35	1	-
Franchised stations	183	154	(29)	-
Light maint depots	21	33	12	-
Depot plant	1	-	(1)	-
Lineside buildings	19	9	(10)	-
MDU buildings	16	9	(7)	-
Other	-	-	-	-
	274	**240**	**(34)**	**(15)**
Electrical power and fixed plant				
AC distribution	9	18	9	-
Overhead Line	127	48	(79)	-
DC distribution	40	18	(22)	-
Conductor rail	1	2	1	-
Signalling Power Supplies	67	53	(14)	-
Other	-	-	-	-
Fixed plant	23	6	(17)	-
	267	**145**	**(122)**	**(32)**
Drainage				
Drainage (Track)	91	94	3	-
Drainage (Earthworks)	24	11	(13)	-
Drainage (Resilience)	-	-	-	-
	115	**105**	**(10)**	**(34)**
Property				
Property	54	12	(42)	-
	54	**12**	**(42)**	**-**
Total Regionally-managed renewals expenditure	**2,593**	**2,439**	**(154)**	**(139)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	9	-	(9)	-
	9	**-**	**(9)**	**(4)**
Telecoms				
Operational communications	5	18	13	-
Network	17	14	(3)	-
SISS	10	19	9	-
Projects and other	3	1	(2)	-
Non-route capital expenditure	68	64	(4)	-
	103	**116**	**13**	**(3)**
Wheeled plant and machinery				
High output	15	12	(3)	-
Incident response	-	-	-	-
Infrastructure monitoring	4	13	9	-
Intervention	8	19	11	-
Materials delivery	6	27	21	-
On track plant	2	4	2	-
Seasonal	3	13	10	-
Other	16	2	(14)	-
	54	**90**	**36**	**-**
Route Services				
Business Improvement	69	31	(38)	-
IT Renewals	37	67	30	-
Asset Information	6	7	1	-
Other	8	6	(2)	-
	120	**111**	**(9)**	**-**
STE Renewals				
Intelligent infrastructure	53	42	(11)	-
Faster Isolations	59	77	18	-
Centrally Managed Signalling Costs	4	10	6	-
Research and development	39	41	2	-
Integrated Management System (Incl. BCR)	-	12	12	-
Other National SCADA Programmes	16	15	(1)	-
Small plant	5	8	3	-
Other	51	13	(38)	-
	227	**218**	**(9)**	**-**
Property				
Property	6	36	30	-
	6	**36**	**30**	**-**
Other renewals				
ETCS	8	19	11	-
Digital Railway	10	(4)	(14)	-
Civils & Drainage - Insurance Fund	4	25	21	20
Buildings - Insurance Fund	1	15	14	-
OPEX/CAPEX Adjustment	(134)	(65)	69	-
Phasing overlay	-	(90)	(90)	-
System Operator	15	17	2	-
Other renewals	23	7	(16)	12
	(73)	**(76)**	**(3)**	**32**
Total centrally-managed renewals expenditure	**446**	**495**	**49**	**25**
TOTAL RENEWALS EXPENDITURE	**3,039**	**2,934**	**(105)**	**(114)**

Statement 3.6: Analysis of renewals expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is higher than the regulatory baseline and the control period to date. This was mostly caused by higher like-for-like project costs and extra expenses to comply with safety standards. Costs appear lower than the previous year. This is mainly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

Regionally-managed renewals

(1) Regional renewals expenditure is higher than the regulatory baseline this year, adding to the underspend from earlier in the control period. This was mostly caused by higher like-for-like project costs and extra expenses to comply with safety standards. The higher costs in the control period to date include the higher like-for-like project costs across most of the portfolio. Costs appear lower than the previous year. This is mainly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly.

(2) Track – investment this year is higher than the regulatory baseline with extra investment in plain line partial works and switches & crossings. These additional costs add to the higher investment in the earlier years of the control period which includes higher like-for-like project costs as reported through financial underperformance and extra safety standard compliance expenses. Marginal financial underperformance has been recognised this year. This includes the benefit of recognising an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. This has offset extra costs this year arising from industrial action resulting in lost possessions and project prolongation, cancelled shifts from access constraints and conflicts with other works, high output safety stand-down cancelling volumes but still incurring fixed costs and higher costs for works as part of the Basford Hall resignalling programme. The control period to date underperformance includes: delays in plain line campaigns causing project prolongation costs, invasive species impacting the work sites Covid-19 related costs (extra staff and vehicle costs), changes in workbank mix, loss of high output volumes form plant failure and unreliability.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

(3) Signalling – expenditure was lower than the regulatory baseline this year, mainly due to slippage on both the integrated Crewe hub and Ruegly to Colwich resignalling programmes. Spend is also lower in the control period to date as a result of these delays. In addition, funding shortages towards the end of CP5 resulted in less design work and so lower delivery activity in early years of CP6. Financial outperformance has been recognised this year which has mitigated financial underperformance experienced in earlier years of CP6. This year extra efficiencies were generated from value engineering of gantry structures to deliver the outputs at a better price, better integration with supply chain to reduce frictional costs and harness expertise in design stage to improve delivery performance and benefits of management modernisation programme on staff costs. The underperformance in earlier years included higher contractor costs and claims, impact of Covid-19, constrained access. Investment is broadly consistent with the previous year but this reflects a different mix of projects with lower activity at Birmingham New Street and Basford Hall offset by extra works on Rugeley to Colwich resignalling and Ferrybridge to Goole.

(4) Civils – expenditure was higher than the regulatory baseline this year which has brought the control period to date position broadly in line with the baseline. Financial underperformance has been recognised this control period resulting from difficulties in delivery of projects. Some key contributors to this are changes in work methodology resulting in increased costs along with access difficulties to get to work sites, particularly around Easter 2023 and extra environmental compliance costs. Also, overall fiscal position has meant reprioritisation of workbanks resulting in sunk costs. Costs are lower than the previous year. This includes the impact of the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high.

(5) Earthworks – expenditure in the year was higher than the regulatory baseline mainly due to higher like-for-like project costs. Financial underperformance this year includes: difficulty accessing sites through local landowners, costs of badger mitigation including extra infrastructure, project prolongation and uncertainty over whether the badgers will return and higher emergency works required. As well as the aforementioned issues, the control period to date underperformance also includes severe flooding that happened in 2019/20 which cause many projects to slip to 2020/21 which has been partly offset by efficiencies in Hillmorton from reduced contractor spend without affecting renewals volume output and cheaper purchase of property for the Hulme Hall Embankment project. Spend in the current year is lower than the previous year which included significant embankment works at Blackthorn and Thorn Gate.

(6) Buildings – investment was higher than the regulatory baseline this year which has driven the control period to date overspend. These higher costs include extra work at Franchised stations to improve the passenger experience and from higher like-for-like project costs. Financial underperformance recognised this control period includes difficulties in the Carlisle Station re-surfacing of platforms 1-3 as trial hole investigations found no significant risks, but as the project progressed, serious faults were discovered. Furthermore, Watford High Street had a main steel truss much more eroded than was anticipated, thus scope of the project was increased to allow this to be replaced. Inaccurate designs for Greenfield and Moston sites and discovery of asbestos in Tamsworth station which required remediation costs also contributed. Lost shifts due to industrial action and access difficulties this year along with reprioritisation of workbanks in the light of overall fiscal risks lead to project prolongation and sunk costs whilst reduced scope of some jobs increased average unit rates. Costs are higher than the previous year with notable projects delivered this year including Manchester Piccadilly platform resurfacing, Willesden Cathedral demolition, Preston roof and Great Malvern canopies.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment this year has been significantly higher than the regulatory baseline, exacerbating the overspend delivered in earlier years of the control period. The higher costs in the control period include delivering Project Alpha, a scheme not included in the original delivery plan, but one that has been initiated by the Executive management team to improve performance and customer service. This scheme has led to additional spend in OLE investment to improve resilience. Other major projects this control period included DC cables replacement on the West Coast Main Line South, fixed plant at Goole swing bridge and Rugely to Colwich resignalling, and various power supply improvements to improve resilience. Financial underperformance has been recognised this control period. This includes Project Alpha works suffering however from curtailed possessions, subsequently allowing less output to be achieved. Additional troughing was also required in North West which was missed in project estimation leading to extra costs. Changes in scope and design works, to ensure renewals delivered meet compliance requirements also increased like-for-like costs as did the impact of cancelled and postponed possessions arising from industrial action, resulting in project prolongation and sunk costs, whilst increases in materials prices and shortages also increased project costs. Spend is lower than the previous year which included significant work on the aforementioned Project Alpha.

(8) Drainage – investment this year was higher than the regulatory expectation which is also the main driver of the control period to date variance. The extra costs include higher like-for-like project costs. This financial underperformance includes costs incurred which relate to site investigation works for drainage across different routes, as well as inefficient access due to site complexities, for example Bermuda Park which has had bad ground conditions. Reduced outputs at New Lane, where the lower volumes adversely effected unit rates compared to the target rates has also contributed as has additional intrusive investigations and surveys at Codsall, Harlesden and Townend Road. Complications with delivering Basford Hall resignalling project has resulted in higher costs across the project, including the Drainage element with access issues across a number of projects have also forced project costs higher. Costs are higher this year compared to last year reflecting the different profile of activity this control period, notably activity in the Basford Hall project.

(9) Property – expenditure is much higher than the regulatory assumption this year continuing the trend of earlier years of the control period. Following devolution of responsibility to the Regions, further opportunities have been identified within the portfolio for investment. This extra spend is partially offset by savings in the Centrally-managed property category. Significant projects this year included works at Euston station to help generate additional retail venue in the future.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery and property. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Spend is lower in the control period to date for similar reasons. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to higher spend being transferred to OPEX this year as well as the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly. In addition, a relatively high number of Faster isolations projects were delivered in 2021/22.

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

(3) Telecoms – investment is lower than the regulatory baseline this year, which is the main driver behind the control period to date variance. Slippage on operational communications and SISS are the primary reasons for this. A significant step up in SISS investment is planned for 2023/24 to help recovery some of the shortfall. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

   a. High output – spend is lower than the prior year comparative which included significant investment in renewing the high output ballast cleaner system fleet.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7. Costs are lower than the previous year which included investment in replacing track plain line stoneblower machines and rail milling train purchase.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date. The primary cause of the underspend for the control period to date is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend of the control period to date. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

f. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline this year and in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories. The control period to date investment is higher than the regulatory baseline expected. Spend is lower than the previous year which included investment in fleet support plant where additional facilities renewals have been identified.

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year which is partly due to the high inflation rate applied to the prior year comparative in line with Regulatory Accounting Guidelines and partly due to more of the programme outputs having been delivered by this point of the control period. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are lower than the regulatory baseline and last year's outturn. There has been a delay in programmes identified meaning slippage in the portfolio for this year and the control period to date. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but broadly in line with last year's outturn. This reflects the lower overall Signalling costs this year compared to expectation. The control period to date also shows a similar relationship to overall Signalling costs.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. The lower spend in the current year means the control period to date is now also lower then than the regulatory target. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – there has and will be minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

g. Small Plant – investment is broadly in line with the regulatory baseline this year but lower in the control period to date. To help with Network Rail's move to a more devolved structure, management of this fund was passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

(7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage. In addition, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. The lower spend in the control period to date is due to the same factors.

(8) Other – investment is lower than the regulatory baseline in the current year but higher in the control period to date, mainly due to the impact of the Phasing delay. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as the programme has been revaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

North West & Central
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
East West Rail Phase 2	181	155	-	741	755	-
Manchester Improvements	26	9	(1)	54	69	-
London Euston (in support of High Speed Rail Group scheme)	17	27	1	49	50	-
SFN-Freight Forecasts project	(7)	(1)	-	(2)	(1)	-
Access for All	13	23	-	25	44	-
Midlands Hub - Continued Design and Early Development	7	12	-	11	12	-
Integrated Crewe Hub - HS2	-	-	(2)	6	6	-
Portfolio Contingency (including T-12)	-	-	-	5	6	21
Depots & Stabling Fund	-	1	-	6	6	-
Northern Hub	(1)	(4)	(5)	47	50	-
West Coast PSU	1	(13)	(2)	8	6	-
High Speed 2	(7)	-	-	-	-	-
Birmingham New Street Gateway	(12)	(6)	3	10	13	(11)
University Station	-	1	-	12	12	-
Energy Coast Rail Upgrade Project	-	1	(3)	6	6	-
NWEP Phase 7 Lostock - Wigan	12	14	-	18	19	-
Tactile Paving Installation	4	3	-	5	5	-
New Stations Fund	-	(4)	-	-	-	-
River Irwell Fl Resil	-	(1)	-	3	5	-
W Mid New Stations	39	47	-	39	47	-
LNWS623 Bushey PSU	10	10	-	10	10	-
IRP Portfolio	-	5	-	-	5	-
Other	21	(13)	4	60	(6)	4
Total	**304**	**266**	**(5)**	**1,113**	**1,119**	**14**
Other Capital Expenditure	**-**	**-**	**-**	**22**	**-**	**-**
Other third party funded schemes						
HS2	196	-	-	713	-	-
Other third Party	57	-	-	242	-	-
Total	**253**	**-**	**-**	**955**	**-**	**-**
Total enhancements	**557**	**266**	**(5)**	**2,090**	**1,119**	**14**
Total enhancements less Other third party funded schemes	304	266	(5)	1,135	1,119	14

Statement 3.7: Analysis of enhancement expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by North West & Central's core funder (DfT).

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with North West & Central's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £304m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£557m) less the PAYGO schemes funded by third parties (£253m).

(2) Enhancements expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties, such as HS2. Financial outperformance has been recognised this control period as noted below. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)).

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in North West & Central. Some notable variances at programme level include:

a. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This year progress has been greater than baseline and the control period to date position is now broadly on schedule.

b. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Progress on the North Train Lengthening in year is greater than anticipated which has helped mitigate some of the underspends reported in previous years.

c. SFN-Freight – this programme aims to deliver improvements on a variety of schemes across the network to improve gauging, train lengthening and other capacity & capability advances. Activity in the current year has bought the control period to date investment broadly into line with the funding baseline.

d. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but the control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

e. Portfolio Contingency (including T-12) this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. Favourable financial performance has been recognised which more than offsets financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

f. West Coast PSU – baselines were adjusted by DfT through the change control mechanism employed by their enhancements oversight board, meaning that although spend was higher than the baseline this year, the control period to date investment broadly aligns to the funding available.

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m cash prices unless stated

g. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. In year underspend and out performance is driven by a favourable final settlement on compensation and associated costs relating to the multi-storey car park. However, financial underperformance has been reported across the project as a whole this control period resulting from ongoing remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

h. New Stations fund – expenditure on this portfolio is now in line with the funding available in the control period to date. Fewer projects have been identified in North West & Central and so the funding was redirected to other regions this year instead.

i. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is lower than the baseline due to delay in work package 1 for Land access and re-design mining remediation.

j. IRP portfolio – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

k. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting rephasing assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm’s length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year includes Headbolt Lane rail interchange and platform lengthening works to facilitate longer Merseyrail rolling stock.

North West & Central
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23			FY23			FY22		
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	64	33	1,939	77	38	2,026
	PL Replace Partial	km	71	137	518	69	168	411
	PL High Output	km	38	18	2,111	29	20	1,450
	PL Refurbishment	km	11	100	110	9	92	98
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	30	68	441	18	43	419
	Switches & Crossing - Other	point ends	4	42	95	5	42	119
	Off Track	km/No.	16	139	115	18	144	125
	Track Other		-	-	-	-	-	-
	Total		**234**			**225**		
Signalling	Signalling Full	SEU	204	405	504	38	58	655
	Signalling Partial	SEU	- -	1	-	-	-	-
	Signalling Refurb	SEU	61	119	513	70	136	515
	Level crossings	No.	15	28	536	7	2	3,500
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**280**			**115**		
Civils	Underbridges	m2	42	8,028	5	39	8,713	4
	Overbridges (incl BG3)	m2	2	1,247	2	10	724	14
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	9	13,995	1	18	24,923	1
	Culverts	m2	2	271	7	4	844	5
	Footbridges	m2	6	429	14	7	642	11
	Coastal & Estuarial Defences	m2	1	596	2	4	837	5
	Retaining Walls	m2	3	948	3	2	611	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**65**			**84**		
Earthworks	Earthworks - Embankments	No.	12	348	34	43	305	141
	Earthworks - Soil Cuttings	No.	21	278	76	31	405	77
	Earthworks - Rock Cuttings	No.	2	93	22	4	31	129
	Earthworks - Other	No.	4	197	20	4	10	400
	Drainage - Earthworks	m	2	14,094	0	10	45,136	0
	Drainage - Other	m	52	25,791	2	25	13,397	2
	TOTAL		**93**			**117**		
Buildings	Buildings (MS)	m2	1	14,775	0	-	1,600	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	5	48,134	0	8	16,656	0
	Buildings (FS)	m2	-	153	-	2	1,695	1
	Platforms (FS)	m2	10	8,897	1	32	10,899	3
	Canopies (FS)	m2	7	4,143	2	11	2,646	4
	Train sheds (FS)	m2	1	1,790	1	-	-	-
	Footbridges (FS)	m2	1	148	7	9	498	18
	Lifts & Escalators (FS)	m2	-	-	-	-	1	-
	Other (FS)	m2	2	19,000	0	4	20,987	0
	Light Maintenance Depots	m2	4	15,478	0	4	18,814	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	2	741	3	5	2,688	2
	MDU Buildings	m2	1	3,055	0	-	-	-
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**34**			**75**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	18	70	257	17	94	181
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	1	289	3	3	292	10
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	1	-	2	5	400
	HV Switchgear Renewal AC	No.	-	4	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	1	1	1,000
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	1	22	45
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	9	60	150	8	45	178
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	2	29	69	2	29	69
	Signalling Power Cables	km	24	62	387	-	7	-
	Signalling Supply Points	point end	-	-	-	3	3	1,000
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**54**			**37**		
Telecoms	Customer Information Systems	No.	1	170	6	1	170	6
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	3	414	7	6	509	12
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	-	-	-	4	2,302	2
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	1	9	111
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	1	28	36
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		5	51	98	5	69	72
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**9**			**18**		

Statement 3.8: Analysis of renewals unit costs, North West & Central

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - PL Replace partial unit rate has increased for a multitude of reasons including industrial action causing access issues and project prolongation on certain projects as well as inflationary issues. Steel prices have increased at a significantly higher rate than headline inflation with the cost of third party contractor agreements increasing too, usually in line with CPI. PL High Output unit rate has increased which can be attributed to the 2022/23 West Coast Mainline BCS which suffered from loss of volumes caused by access issues. Switches and Crossing Replace unit rate has also increased due to an increased proportion of full renewal volumes being delivered. Whilst these interventions generally extend the useful economic life of the asset by longer periods than other solutions, they are more expensive.

(3) Signalling – PL Replace partial unit rate has increased for a multitude of reasons including industrial action causing access issues and project prolongation on certain projects as well as inflationary issues. Steel prices have increased at a significantly higher rate than headline inflation with the cost of third party contractor agreements increasing too, usually in line with CPI. PL High Output unit rate has increased which can be attributed to the 2022/23 West Coast Mainline BCS which suffered from loss of volumes caused by access issues. Switches and Crossing Replace unit rate has also increased due to an increased proportion of full

renewal volumes being delivered. Whilst these interventions generally extend the useful economic life of the asset by longer periods than other solutions, they are more expensive.

Statement 3.8: Analysis of renewals unit costs, North West & Central – continued

In £m cash prices unless stated

(4) Civils – Overbridges unit rate decreased which can be attributed to a decrease in the amount of more expensive replace work. Last year replace work was cited as the main reason the unit rate increased, however this has now reversed with there being a higher proportion of repair work so the unit rate has decreased. Civils like Earthworks has subcategories which deliver different life extension outcomes at scaled cost. For example, Replace work costs more than Repair work, but will last longer and prevent the need to further work in the near future. The unit rate of Footbridges has increased which has been driven by factors including more complex projects required to accommodate HS2 infrastructure.

(5) Earthworks & Drainage – The unit rate for Earthworks Embankments has decreased and can be attributed to a higher proportion of cheaper Maintain work being completed. Within Earthworks categories there are three subcategories; Maintain, Renew and Refurb. All three offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. The most appropriate asset intervention is determined by local asset management teams. Earthworks Rock Cuttings unit rate has also decreased and can be explained by similar workbank reasons with a higher proportion of cheaper Maintain work being completed. Earthworks Other unit rate decreased significantly, however last year there was only one project, so the sample was too small to establish any meaningful data trends. This year’s unit rate is more in line with the unit rate produced in 2020/21 which suggests 2021/22’s unit rate was the outlier caused by the specific project undertaken.

(6) Buildings – There has been a decrease in the unit rate of Footbridges FS. In the past two years there have been 2 and 3 projects respectively, so the sample in the previous and current year is too trivial to produce any meaningful analysis. In 2021/22’s accounts it was noted that the 2 projects undertaken had a significantly higher unit cost than the 2020/21 projects. 2022/23’s unit cost has returned to 2020/21’s rate as more expensive projects have been delivered.

(7) Electrical Power and Fixed Plant – there has been a decrease in the unit rate of Footbridges FS. In the past two years there have been 2 and 3 projects respectively, so the sample in the previous and current year is too trivial to produce any meaningful analysis. In 2021/22’s accounts it was noted that the 2 projects undertaken had a significantly higher unit cost than the 2020/21 projects. 2022/23’s unit cost has returned to 2020/21’s rate as more expensive projects have been delivered.

(8) Telecoms – There was an increase in the unit rate of Network, however there was only 3 projects delivering volumes which is too small a sample to establish meaningful data trends.

North West & Central
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

2022-23

	£m
Opening RAB (2020-21 Actual prices)	**16,410**
Indexation to 2021-22 prices	18,166
RAB additions	
Renewals expenditure	850
Enhancements expenditure	-
Less amortisation	(850)
Property Sales	(7)
Closing RAB	**18,159**

Net debt

	£m
Opening net debt	**11,811**
Income	(2,451)
Expenditure	2,167
Financing Costs - Government borrowing	173
Financing Costs - index linked debt	678
Financing Costs - Other	28
Corporation tax	(11)
Working capital	(35)
Closing net debt	**12,360**

Statement 4: Regulatory financial position, North West & Central

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the North West & Central part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £0.85bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to North West & Central and how it has moved during the year.

(8) Network Rail's debt attributable to North West & Central is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, North West & Central – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Southern
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	1,407	1,794	(387)	-	1,757
Franchised track access charges	688	707	(19)	(8)	722
Other Single Till Income	225	244	(19)	(21)	294
Total Income	**2,320**	**2,745**	**(425)**	**(29)**	**2,773**
Operating expenditure					
Network operations	180	188	8	8	199
Support costs	206	199	(7)	47	229
Traction electricity, industry costs and rates	299	315	16	(2)	270
Maintenance	483	377	(106)	(90)	501
Schedule 4	166	85	(81)	(91)	115
Schedule 8	(18)	4	22	22	(115)
	1,316	**1,168**	**(148)**	**(106)**	**1,199**
Capital expenditure					
Renewals	970	1,009	39	(36)	1,022
Enhancements	143	87	(56)	(7)	186
	1,113	**1,096**	**(17)**	**(43)**	**1,208**
Risk expenditure					
Risk (Centrally-held)	-	58	58	-	-
Risk (Route-controlled)	-	53	53	-	-
Risk (Contingent asset management	-	69	69	-	-
	-	**180**	**180**	**-**	**-**
Other expenditure					
Financing costs	939	507	(432)	-	700
Corporation tax	(13)	21	34	-	-
	926	**528**	**(398)**	**-**	**700**
Total expenditure	**3,355**	**2,972**	**(383)**	**(149)**	**3,107**
Total Financial Out/(under) performance				**(178)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	5,645	6,627	(982)	-
Franchised track access charges	2,573	2,743	(170)	(25)
Other Single Till Income	908	939	(31)	(65)
Total Income	**9,126**	**10,309**	**(1,183)**	**(90)**
Operating expenditure				
Network operations	723	736	13	12
Support costs	752	771	19	71
Traction electricity, industry costs and rates	1,035	1,143	108	-
Maintenance	1,761	1,501	(260)	(268)
Schedule 4	431	323	(108)	(105)
Schedule 8	(298)	20	318	319
	4,404	**4,494**	**90**	**29**
Capital expenditure				
Renewals	3,571	3,394	(177)	(194)
Enhancements	714	679	(35)	5
Other	-	-	-	-
	4,285	**4,073**	**(212)**	**(189)**
Risk expenditure				
Risk (Centrally-held)	-	131	131	-
Risk (Route-controlled)	-	130	130	-
funding)	-	172	172	-
	-	**433**	**433**	**-**
Other expenditure				
Financing costs	2,434	2,036	(398)	-
Corporation tax	1	46	45	-
	2,435	**2,082**	**(353)**	**-**
Total expenditure	**11,124**	**11,082**	**(42)**	**(160)**
Total Financial Out/(under) performance				**(250)**

Statement 1: Summary of regulatory financial performance, Southern

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Southern's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's Southern net expenditure (Total income less Total expenditure) was around £0.8bn higher than the regulatory baseline and £1.2bn higher than the control period to date regulatory baseline. The higher net expenditure experienced this year relates to reduced grants and higher financing costs. The control period variance is mostly due to reduced Grant income as more of the DfT grants have been allocated to other regions compared to the regulatory expectation.

(2) This statement also shows that Network Rail Southern has recognised financial underperformance of £178m this year and £250m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and extra investment in maintenance, being partially offset by improvements in the train performance regime.

(3) Income – Grant income in the year was lower than the regulatory baseline. Network grants are higher reflecting different utilisation of the total DfT network grant in Southern compared to the regulatory baseline's expectation whilst Internal financing grants are lower as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The variance for the control period to date is due to the same factors. Grants are lower than the previous year reflecting variability in annual activity and recognition of network grant income. Variances in Grant income is outside of the scope of financial performance. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year was lower than the baseline due to lower variable usage charge and traction electricity charge. The former was due to industrial action in the year and the level of timetabled train services still being below pre-Covid-19 levels. The latter was due to lower costs as reflected in the Traction electricity, industry costs and rates line. The lower figure in the control period to date also reflects the lower Traction electricity costs experienced and the impact of Covid-19 on the number of services ran over the past three years. Franchised track access income is lower than the previous year. This is partly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period to date is below the regulatory baseline for the same reason. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is lower than the previous year. This is partly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). In addition, property sales were higher last year. By their nature property sales can be variable between years. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were lower than the regulatory expectation this year. Additional efficiencies, headcount restraint and reorganisations have enabled savings. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are broadly similar to the regulatory baseline this year and lower in the control period to date as workforce reform savings and reduced insurance costs have more than offset the impact of a higher proportion of project costs being treated as opex instead of capex and Covid-19 related costs. As a result financial outperformance has been achieved. Costs appear lower than the prior year comparative. This includes the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, workforce reform savings have been delivered this year. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). In addition, Business rates were lower than expected this year as the government postponed quinquennial increases in the wake of Covid-19. Costs are higher than the previous year reflecting higher traction electricity costs. In line with the ORR's Regulatory Accounting Guidelines, variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year, continuing the trend of previous year of the control period. This includes performance improvement schemes, costs of compliance with safety standards and improving maintenance resource. Control period to date expenditure also includes strengthening capabilities and responsiveness by creating Inner and Outer maintenance delivery units, the introduction of Trespass and Welfare teams at stations across the route, and Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are favourable to with the regulatory baseline this year. The timetable has not returned to pre-Covid-19 levels for most operators in Southern which has enabled greater resilience for remaining services. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. The inflow this year is less than the inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Overall, Renewals expenditure was lower than the regulatory baseline this year but remains higher than the control period to date assumption. The higher investment is largely in line with the adverse financial performance reported which has largely been due to Earthworks, including emergency works, and Signalling. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Renewals investment is discussed in more detail in Statement 3.6.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(13) Capital expenditure – Enhancement expenditure this year is higher than the regulatory baseline. This mainly due to an updated CP6 cumulative baseline as agreed with the DfT which incorporates the outcomes from the Spending Review 2021 (SR21) and subsequent decisions on what outputs and future projects they want delivered. Financial underperformance has been recognised this year, with various net variances across numerous projects. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with DfT. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of DfT. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern
Statement 2: Analysis of income
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	263	260	3	-	299
Variable usage charge	46	59	(13)	(13)	52
Electrification asset usage charge	4	5	(1)	(1)	4
Capacity charge	-	-	-	-	-
Open access income	5	-	5	5	6
Managed stations long term charge	23	23	-	-	25
Franchised stations long term charge	57	56	1	1	60
Traction electricity charges	197	211	(14)	-	169
Schedule 4 access charge supplement	64	64	-	-	75
	659	**678**	**(19)**	**(8)**	**690**
Other single till income					
Freight income					
Freight variable usage charge	4	5	(1)	(1)	4
Freight other income	-	-	-	-	-
	4	**5**	**(1)**	**(1)**	**4**
Stations income					
Managed stations qualifying expenditure	36	39	(3)	(3)	38
Franchised stations lease income	31	27	4	4	33
	67	**66**	**1**	**1**	**71**
Facility and financing charges					
Facility charges	18	18	-	-	20
	18	**18**	**-**	**-**	**20**
Property income					
Property rental	79	103	(24)	(24)	73
Property sales	6	4	2	2	58
	85	**107**	**(22)**	**(22)**	**131**
Depots Income	**40**	**35**	**5**	**5**	**42**
Other income	**2**	**2**	**-**	**-**	**2**
Freight traction electricity charges	**6**	**3**	**3**	**-**	**2**
Total other single till income	**222**	**236**	**(14)**	**(17)**	**272**
Total Regionally-managed income	**881**	**914**	**(33)**	**(25)**	**962**
Centrally-managed income					
Network grant	1,117	1,403	(286)	-	1,418
Internal financing grant	146	215	(69)	-	156
External financing grant	125	125	-	-	149
BTP grant	32	30	2	-	34
Corporation tax grant	(13)	21	(34)	-	-
Infrastructure cost charges	12	12	-	-	13
Schedule 4 access charge supplement	17	17	-	-	19
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	1,436	**1,823**	**(387)**	**-**	1,789
Other single till income					
Property income					
Property rental	2	3	(1)	(1)	1
Property sales	1	5	(4)	(3)	21
	3	**8**	**(5)**	**(4)**	**22**
Total other single till income	**3**	**8**	**(5)**	**(4)**	**22**
Total centrally-managed income	**1,439**	**1,831**	**(392)**	**(4)**	**1,811**
Total income	**2,320**	**2,745**	**(425)**	**(29)**	**2,773**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,007	1,009	(2)	-
Variable usage charge	191	225	(34)	(34)
Electrification asset usage charge	16	18	(2)	(2)
Capacity charge	-	-	-	-
Open access income	15	-	15	15
Managed stations long term charge	89	90	(1)	(1)
Franchised stations long term charge	218	218	-	-
Traction electricity charges	350	415	(65)	-
Schedule 4 access charge supplement	276	279	(3)	(3)
	2,162	**2,254**	**(92)**	**(25)**
Other single till income				
Freight income				
Freight variable usage charge	15	17	(2)	(1)
Freight other income	-	-	-	-
	15	**17**	**(2)**	**(1)**
Stations income				
Managed stations qualifying expenditure	135	147	(12)	(12)
Franchised stations lease income	117	103	14	14
	252	**250**	**2**	**2**
Facility and financing charges				
Facility charges	70	70	-	-
	70	**70**	**-**	**-**
Property income				
Property rental	171	298	(127)	(127)
Property sales	62	12	50	19
	233	**310**	**(77)**	**(108)**
Depots Income	**148**	**133**	**15**	**14**
Other income	**8**	**7**	**1**	**2**
Freight traction electricity charges	**8**	**6**	**2**	**-**
Total other single till income	**734**	**793**	**(59)**	**(91)**
Total Regionally-managed income	**2,896**	**3,047**	**(151)**	**(116)**
Centrally-managed income				
Network grant	4,369	5,128	(759)	-
Internal financing grant	593	768	(175)	-
External financing grant	566	570	(4)	-
BTP grant	116	114	2	-
Corporation tax grant	1	47	(46)	-
Infrastructure cost charges	46	46	-	-
Schedule 4 access charge supplement	67	67	-	-
Traction electricity charges	298	376	(78)	-
Freight traction electricity charges	4	5	(1)	-
	6,060	**7,121**	**(1,061)**	**-**
Other single till income				
Property income				
Property rental	103	107	(4)	(4)
Property sales	67	34	33	30
	170	**141**	**29**	**26**
Total other single till income	**170**	**141**	**29**	**26**
Total centrally-managed income	**6,230**	**7,262**	**(1,032)**	**26**
Total income	**9,126**	**10,309**	**(1,183)**	**(90)**

Statement 2: Analysis of income, Southern

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is lower than the CP6 baseline in the current year and control period to date mainly due to lower grants. Income is lower than the previous year mostly due to lower grants as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in this region compared to the regulatory baseline's expectation.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to lower traction electricity income, lower property rental income and variable track access income. The same factors are also driving the lower income in the control period to date. Regionally managed income is greater than last year primarily Income is lower than the previous year which included benefits from one-off Property sales and also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

(2) Infrastructure cost charges - fixed charge income was broadly in line with the regulatory baseline for both this year and the control period to date. These minor variances are due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income is lower than the previous year. This is parly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic. Consequently, most operators in Southern are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand. Income is lower than the previous year. This is because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021) and also due to the aforementioned industrial action this year.

(4) Open access income – income is higher than the regulatory baseline in the current year and the control period to date due to the income received by London Underground moving over from Eastern region to the Southern region. Income is consistent with the previous year.

(5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Income was higher than the previous year reflecting market price increases. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(6) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income was lower than the previous year. This is mainly due to planned reductions as reflected in the regulatory baseline for this year but also because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021).

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

(7) Property rental – this year’s income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand.

(8) Property sales - revenue is broadly in line with the regulatory baseline this year but much higher is the control period to date mostly due to the sale of the investment property Cannon Place in 2021/22. This divestment decision was a result of favourable market conditions which allowed the disposal to be at a price which exceeded expectations. The one-off impact of this disposal is also behind the reduction in Property sales this year when compared with the previous year.

(9) Depots income – revenue is slightly higher than the regulator’s assumptions this year, continuing the trend of earlier years of the control period due to additional services offered to operators.

Centrally-managed income

(1) Aggregate Centrally-managed income is lower than the CP6 baseline in the current year and control period to date, mainly due to lower grant income. Reduced income compared to the previous year is mainly due to higher Network grant revenue recognised this year.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is lower than the regulatory baseline for the year adding to the lower income in earlier years of the control period. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in this region compared to the regulatory baseline’s expectation. Income is lower than the previous year reflecting phasing differences on when net expenditure in the region occurs.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

(8) Schedule 4 access charge supplement – income is lower than the previous year. This is mainly because the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).

(9) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(10) Property rental – income was lower than the regulatory baseline this year and the control period to date mainly due to the impact of Covid-19 on customer demand.

(11) Property sales – sales are lower than the regulatory baseline this year but higher in the control period to date. Property sales by their nature are erratic as properties can only be sold once and, therefore, Network Rail needs to make sure any transaction is supported by strong business cases. The bespoke nature of many of the properties also mean there is a relatively limited market to sell to. Outperformance for the control period to date includes disposals reported in the prior year Regulatory Financial Statements, including sales at Blackfriars Station, Blackheath Station and James Forbes House. The reduction compared to the previous year illustrates the erratic nature of the timing of sales.

Southern
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	176	184	8	8	195
Maintenance	459	367	(92)	(81)	490
Support costs	77	60	(17)	(17)	80
Traction electricity, industry costs and rates	291	306	15	(2)	261
Schedule 4	163	73	(90)	(100)	116
Schedule 8	(19)	2	21	21	(117)
	1,147	**992**	**(155)**	**(171)**	**1,025**
Capital expenditure					
Renewals	819	811	(8)	(37)	903
Enhancements	140	87	(53)	(7)	186
	959	**898**	**(61)**	**(44)**	**1,089**
Total Regionally-managed expenditure	**2,106**	**1,890**	**(216)**	**(215)**	**2,114**
Centrally-managed expenditure					
Operating expenditure					
Network operations	4	4	-	-	4
Maintenance	24	10	(14)	(9)	11
Support costs	129	139	10	64	149
Traction electricity, industry costs and rates	8	9	1	-	9
Schedule 4	3	12	9	9	(1)
Schedule 8	1	2	1	1	2
	169	**176**	**7**	**65**	**174**
Capital expenditure					
Renewals	151	198	47	1	119
Enhancements	3	-	(3)	-	-
	154	**198**	**44**	**1**	**119**
Risk Expenditure	**-**	**180**	**180**	**-**	**-**
Other					
Financing costs	939	507	(432)	-	700
Taxation	(13)	21	34	-	-
	926	**528**	**(398)**	**-**	**700**
Total centrally-managed expenditure	**1,249**	**1,082**	**(167)**	**66**	**993**
Total expenditure	**3,355**	**2,972**	**(383)**	**(149)**	**3,107**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	709	719	10	10
Maintenance	1,700	1,445	(255)	(262)
Support costs	275	232	(43)	(42)
Traction electricity, industry costs and rates	530	588	58	(2)
Schedule 4	437	276	(161)	(157)
Schedule 8	(295)	12	307	308
	3,356	**3,272**	**(84)**	**(145)**
Capital expenditure				
Renewals	3,082	2,743	(339)	(203)
Enhancements	672	673	1	(9)
	3,754	**3,416**	**(338)**	**(212)**
Total Regionally-managed expenditure	**7,110**	**6,688**	**(422)**	**(357)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	14	17	3	2
Maintenance	61	56	(5)	(6)
Support costs	477	539	62	113
Traction electricity, industry costs and rates	505	555	50	2
Schedule 4	(6)	47	53	52
Schedule 8	(3)	8	11	11
	1,048	**1,222**	**174**	**174**
Capital expenditure				
Renewals	489	651	162	9
Enhancements	42	6	(36)	14
Other	-	-	-	-
	531	**657**	**126**	**23**
Risk Expenditure	**-**	**433**	**433**	**-**
Other				
Financing costs	2,434	2,036	(398)	-
Taxation	1	46	45	-
	2,435	**2,082**	**(353)**	**-**
Total centrally-managed expenditure	**4,014**	**4,394**	**380**	**197**
Total expenditure	**11,124**	**11,082**	**(42)**	**(160)**

Statement 3: Analysis of expenditure, Southern

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, expenses arising from industrial action which have more than offset the presence of risk funds. Expenditure has been higher than the control period to date with greater levels of capital investment, operating expenses and financing costs have more than offset the presence of risk funds. Costs are higher than the previous year mainly due to higher financing costs and performance regime expenses.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across most categories. Costs in the control period to date are higher with additional capital investment, operating costs and industrial action which have been partly offset by schedule 8 savings from strong train performance. Expenses are lower than the previous year as industrial action costs this year and train performance reverting to pre-pandemic norms have been offset by reduced capital investment. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has more than offset the higher financing costs experienced this year. Savings have also been made across a number of central functions. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Southern
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	59	57	(2)	(2)	66
Operations Management	14	12	(2)	(2)	15
Controllers	35	32	(3)	(3)	40
Electrical control room operators	9	8	(1)	(1)	10
	117	**109**	**(8)**	**(8)**	**131**
Non signaller expenditure					
Mobile operations managers	11	8	(3)	(3)	11
Managed stations	32	33	1	1	32
Performance	5	9	4	4	7
Other	11	25	14	14	14
Total Regionally-managed Operations expenditure	**176**	**184**	**8**	**8**	**195**
Centrally-managed Operations expenditure					
Network Services	4	4	-	-	4
Total centrally-managed Operations expenditure	**4**	**4**	**-**	**-**	**4**
Total operations expenditure	**180**	**188**	**8**	**8**	**199**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	236	230	(6)	(6)
Operations Management	46	47	1	1
Controllers	132	128	(4)	(4)
Electrical control room operators	34	31	(3)	(3)
	448	**436**	**(12)**	**(12)**
Non signaller expenditure				
Mobile operations managers	44	33	(11)	(11)
Managed stations	132	125	(7)	(6)
Performance	25	35	10	10
Other	60	90	30	29
Total Regionally-managed Operations expenditure	**709**	**719**	**10**	**10**
Centrally-managed Operations expenditure				
Network Services	14	17	3	2
Total centrally-managed Operations expenditure	**14**	**17**	**3**	**2**
Total operations expenditure	**723**	**736**	**13**	**12**

Statement 3.1: Analysis of operations expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were lower than the regulatory expectation this year. Additional efficiencies, headcount restraint and reorganisations have enabled savings. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation for both the Control Period to date and the current year. The higher costs this year include extra fatigue management compliance. The higher costs for the control period to date also includes increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic. Compared to last year, costs are lower. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. The prior year also included higher Covid-19 resilience costs.

(3) Mobile operations managers – costs for the control period to date are higher than the regulatory baseline. Many of the resilience costs incurred to bolster train performance have been recognised in this heading, rather than Performance.

(4) Managed Stations – whilst costs are broadly in line with the regulatory baseline this year, the control period to date costs are higher due to Southern's response to the Covid-19 pandemic. This included additional contingent staff and cleaning at stations to keep the public informed and safe.

(5) Performance – costs for the control period to date are lower than the regulatory baseline. As noted above, many of the resilience costs incurred to bolster train performance have been recognised in the Mobile operations mangers category, rather than Performance.

Statement 3.1: Analysis of operations expenditure, Southern – continued

In £m cash prices unless stated

(6) Other – costs are much lower than the regulatory target for this year, and the Control Period to date. This is partly due to restructuring as a result of the PPF Programme. Responsibilities and activities (notably seasonal circuits) that are included in the regulatory baseline in this category have been delivered by Controllers, pushing those costs higher but creating a saving here. The savings in this category also help offset higher costs reported elsewhere in Operations.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date, as well as the previous year.

Southern
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	184	162	(22)	(7)	194
Signalling & Telecoms	68	69	1	1	78
Civils	50	46	(4)	(16)	42
Buildings	38	29	(9)	(1)	33
Electrical power and fixed plant	27	30	3	3	31
Other network operations	92	31	(61)	(61)	112
	459	**367**	**(92)**	**(81)**	**490**
Centrally-managed maintenance expenditure					
Telecoms	6	8	2	2	6
Route Services - Asset Information	5	6	1	1	6
STE Maintenance	1	1	-	-	1
Property	-	-	-	-	1
Route Services - Other	10	(3)	(13)	(10)	(2)
Other	2	(2)	(4)	(2)	(1)
	24	**10**	**(14)**	**(9)**	**11**
Total maintenance expenditure	**483**	**377**	**(106)**	**(90)**	**501**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	686	630	(56)	(41)
Signalling & Telecoms	272	268	(4)	(5)
Civils	164	175	11	(27)
Buildings	132	118	(14)	-
Electrical power and fixed plant	105	114	9	10
Other network operations	341	140	(201)	(199)
	1,700	**1,445**	**(255)**	**(262)**
Centrally-managed maintenance expenditure				
Telecoms	20	27	7	7
Route Services - Asset Information	22	22	-	-
STE Maintenance	5	4	(1)	(1)
Property	4	6	2	2
Route Services - Other	10	(3)	(13)	(14)
Other	-	-	-	-
	61	**56**	**(5)**	**(6)**
Total maintenance expenditure	**1,761**	**1,501**	**(260)**	**(268)**

Statement 3.2: Analysis of maintenance expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year mostly due to additional costs in Regionally-managed activity as set out below. The control period to date variance is also overwhelmingly due to Centrally-managed categories as described below. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, continuing the pattern of the control period so far. This includes performance improvement schemes, costs of compliance with safety standards and improving maintenance resource. Control period to date expenditure also includes strengthening capabilities and responsiveness by creating Inner and Outer maintenance delivery units, the introduction of Trespass and Welfare teams at stations across the route, and Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Track – track maintenance costs are the largest component of Southern's maintenance costs. This year, costs are higher than the regulatory baseline which includes performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Costs are higher in the control period to date which includes the aforementioned higher costs in the year as well as investment in performance schemes, addressing track defects around London Bridge and additional expenditure required in our response to Covid. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

(3) Signalling & telecoms – costs for the current year and control period to date are broadly in line with the regulatory expectation but there has been a large decrease compared to the prior year. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(4) Civils – costs were higher than the regulatory baseline mainly due to additional inspections costs, offsetting the reduced inspections costs noted in the previous year's Regulatory Financial Statements. These extra costs related to both additional volumes, but also higher like-for-like costs as contracts were retendered at higher rates, reflecting difficult market conditions for specialist resource. In addition, there were track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. These extra costs were partly offset by lower spend on reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Despite the higher costs this year, overall expenses for the control period to date are lower than the regulatory baseline, predominantly because of lower reactive maintenance expenditure. Costs are higher than the previous year due to the aforementioned catch up with inspections activity this year.

(5) Buildings – costs are higher this year than the regulatory baseline and the control period to date mainly due to additional reactive maintenance works required. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Costs are higher than the previous year reflecting the variable nature of these type of costs.

(6) Electrical power and fixed plant – costs for the current year are broadly in line with the regulatory expectation but lower in the control period to date. This is largely attributable to a delay in planned OLE works.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

(7) Other network operations – costs are significantly higher than the regulatory baseline this year, which continues the trend of the earlier years of the control period. These higher costs include investing to comply with emerging engineering and safety standards, strengthening asset management teams and capabilities. In addition, extra investment was undertaken in performance improvement schemes including compliance investment contributing to this extra spend. This has included additional staff costs, procurement of Covid-19 secure services and increases in the premium hour costs. Additionally, there are various one-off expenses and other asset resilience initiatives to protect train performance, including a Performance scheme implemented in Wessex and the introduction of Trespass and Welfare teams across the route's stations. Costs are lower than the previous year. This includes the impact of the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, 2021/22 included some non-recurring discretionary items.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment and successful resolution of commercial claims in the first year of the control period. Costs are higher than the previous year due to a catch up of projects this year.

(3) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

Southern
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	13	9	(4)	(4)	11
Finance	6	6	-	-	5
Accommodation	23	16	(7)	(7)	23
Utilities	21	17	(4)	(4)	19
Other	14	12	(2)	(2)	22
	77	**60**	**(17)**	**(17)**	**80**
Centrally-managed Support costs					
Finance & Legal	7	13	6	6	10
Communications	3	5	2	2	3
Human Resources	4	7	3	3	7
System Operator	9	16	7	7	10
Property	5	1	(4)	(4)	9
Telecoms	16	12	(4)	(4)	19
Network Services	-	-	-	-	-
Safety Technical and Engineering	8	9	1	3	9
RS - IT and Business Services	23	26	3	3	27
RS - Asset Information	3	5	2	1	3
RS - Directorate	-	6	6	6	10
Other corporate functions	-	1	1	8	4
Insurance	(2)	11	13	13	7
OPEX/CAPEX Adjustment	40	14	(26)	-	28
Group costs	13	13	-	20	3
	129	**139**	**10**	**64**	**149**
Total support costs	**206**	**199**	**(7)**	**47**	**229**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	41	36	(5)	(5)
Finance	17	24	7	6
Accommodation	84	70	(14)	(13)
Utilities	69	69	-	(1)
Other	64	33	(31)	(29)
	275	**232**	**(43)**	**(42)**
Centrally-managed Support costs				
Finance & Legal	31	45	14	14
Communications	12	15	3	5
Human Resources	19	23	4	4
System Operator	33	54	21	20
Property	27	4	(23)	(22)
Telecoms	62	59	(3)	(5)
Network Services	8	16	8	8
Safety Technical and Engineering	30	32	2	4
RS - IT and Business Services	92	99	7	6
RS - Asset Information	10	19	9	7
RS - Directorate	21	20	(1)	(1)
Other corporate functions	11	14	3	3
Insurance	17	38	21	21
OPEX/CAPEX Adjustment	102	48	(54)	-
Group costs	2	53	51	49
	477	**539**	**62**	**113**
Total support costs	**752**	**771**	**19**	**71**

Statement 3.3: Analysis of support costs, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

1) Support costs are higher than the regulatory baseline this year as savings in Centrally-managed activities have been more than offset by higher costs in Regionally-managed categories as set out below. The control period to date shows an overall saving as the savings in the Centrally-managed activities have more than offset by higher costs in Regionally-managed categories. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Regionally-managed support costs

(1) Once again, total Regionally-managed support costs are higher than the regulatory baseline. This year's variance includes: implementation of the PPF re-organisation programme, office relocation, higher market utility rates and additional investment in training. The Control Period to date is also higher than the regulatory baseline, including the aforementioned higher costs this year as well as the cost of responding to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Human resources – costs in the current year and control period to date are higher than the baseline expectation reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff, to support this initiative. This year includes additional signaller training costs and leadership development programmes to invest in staff competencies.

(3) Accommodation – costs are higher than the baseline expectation this year mainly due to a relocation to a new office to divest an older, larger site. The higher costs in the control period to date also include expenditure on required Covid-19 compliance measures.

(4) Utilities – costs are higher than the baseline this year reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty and also accounts for the increase compared to the previous year.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(5) Other – costs were higher than the regulatory baseline this year primarily due to implementation of the PPF programme which saw the transfer of many teams, such as Property, NRT, from national functions to regional ones. Costs for the control period to date are higher than the baseline due to the aforementioned factors as well as Covid-19 response expenses, such as PPE purchases, supplementary staff and cleaning and deferral of staff holiday entitlement. Costs this year were lower than the previous year including unwinding of some of this deferral of staff holiday entitlement.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year as savings arising from workforce reform and from reduced insurance expenses have been partially offset by a greater number of projects being classified as opex rather than capex. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, workforce reform efficiencies have helped reduce costs.

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Communications – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(5) System Operator – costs are lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(6) Property – costs are higher than the regulatory baseline this year continuing the trend from earlier years of the control period. This is mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(7) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan. Costs are lower than the previous year which is partly due to the aforementioned impact of reprofiling activity but also due to savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are broadly in line with the regulatory baseline mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and building on savings recognised in earlier years of the control period. These savings offset costs reported this year for support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(10) Route Services – IT and Business Services – costs are lower the regulatory baseline this year mostly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The outperformance in the control period to date are largely due to the efficiencies this year but also from savings made earlier in the control period through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR’s Regulatory Accounting Guidelines.

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(12) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(13) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

(15) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

(16) Group – costs are lower than the regulatory baselines for the control period to date mainly due to savings against from investing the Crossrail Supplementary Access Charge costs. Costs are higher than the previous year. As noted in the previous year Regulatory Financial Statements, some workforce reform savings were recognised in this category last year, these benefits have now been transferred to the rest of the business resulting in the recognition of an offsetting cost this year in Group.

Southern
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	204	214	10	-	172
Business rates	55	62	7	-	56
British transport police costs	32	30	(2)	(2)	33
	291	**306**	**15**	**(2)**	**261**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	6	5	(1)	-	5
RDG membership costs	-	1	1	-	1
RSSB costs	2	3	1	-	3
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	8	**9**	**1**	**-**	**9**
Total traction electricity, industry costs and rates	**299**	**315**	**16**	**(2)**	**270**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	359	421	62	-
Business rates	106	105	(1)	-
British transport police costs	65	62	(3)	(2)
	530	**588**	**58**	**(2)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	305	381	76	-
Business rates	117	85	(32)	-
British transport police costs	51	53	2	2
ORR licence fee and railway safety levy	21	20	(1)	-
RDG membership costs	3	4	1	-
RSSB costs	8	9	1	-
Reporters fees	-	-	-	-
Other industry costs	-	3	3	-
	505	**555**	**50**	**2**
Total traction electricity, industry costs and rates	**1,035**	**1,143**	**108**	**-**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs which has been offset by lower income received from operators (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs are higher than last year as not all operators had pre-purchased electricity requirements and so were subject to rising market prices this year. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Southern – continued

In £m cash prices unless stated

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period to date.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	163	73	(90)	(100)	116
Access charge supplement Income	(64)	(64)	-	-	(75)
Net (income)/cost	**99**	**9**	**(90)**	**(100)**	**41**
Schedule 8					
Performance element income	(19)	-	19	19	(117)
Performance element costs	-	2	2	2	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**(19)**	**2**	**21**	**21**	**(117)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	3	12	9	9	(1)
Access charge supplement Income	(17)	(17)	-	-	(19)
Net (income)/cost	**(14)**	**(5)**	**9**	**9**	**(20)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	1	2	1	1	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**1**	**2**	**1**	**1**	**2**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	166	85	(81)	(91)	115
Access charge supplement Income	(81)	(81)	-	-	(94)
Net (income)/cost	**85**	**4**	**(81)**	**(91)**	**21**
Schedule 8					
Performance element income	(19)	-	19	19	(117)
Performance element costs	1	4	3	3	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**(18)**	**4**	**22**	**22**	**(115)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	437	276	(161)	(157)
Access charge supplement Income	(276)	(279)	(3)	(3)
Net (income)/cost	**161**	**(3)**	**(164)**	**(160)**
Schedule 8				
Performance element income	(314)	-	314	314
Performance element costs	19	12	(7)	(6)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(295)**	**12**	**307**	**308**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(6)	47	53	52
Access charge supplement Income	(67)	(67)	-	-
Net (income)/cost	**(73)**	**(20)**	**53**	**52**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(3)	8	11	11
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(3)**	**8**	**11**	**11**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	431	323	(108)	(105)
Access charge supplement Income	(343)	(346)	(3)	(3)
Net (income)/cost	**88**	**(23)**	**(111)**	**(108)**
Schedule 8				
Performance element income	(314)	-	314	314
Performance element costs	16	20	4	5
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(298)**	**20**	**318**	**319**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Overall Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, which has augmented the additional costs earlier in the control period, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are favourable to the regulatory baseline this year. Despite the influence of industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays, overall performance still exceeded benchmarks, continuing the trend from earlier years of the control period. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There net inflow this year compared to the previous year has reduced as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. In addition, the prior year comparatives have been uplifted using the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines, whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2021). Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period.

(2) Schedule 8 costs were favourable to the regulatory baseline this year. Despite industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays, train performance continued to exceed regulatory benchmarks. The control period to date remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net income reported this year is lower than that recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

(3) Schedule 8 – this year's cost is similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Southern

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	57	73	16	-	75
PL Replace Partial	30	18	(12)	-	30
PL High Output	-	-	-	-	-
PL Refurbishment	27	24	(3)	-	26
PL Track Slab Track	5	1	(4)	-	1
Switches & Crossing - Replace	45	68	23	-	69
Switches & Crossing - Other	19	16	(3)	-	18
Off Track	17	7	(10)	-	24
Track Other	(2)	6	8	-	7
	198	**213**	**15**	**41**	**250**
Signalling					
Signalling Full	127	151	24	0	125
Signalling Partial	25	17	(8)	0	29
Signalling Refurb	29	23	(6)	0	34
Level crossings	30	26	(4)	0	19
Minor works	28	16	(12)	0	34
Other	1	6	5	0	1
	240	**239**	**(1)**	**(42)**	**242**
Civils					
Underbridges	32	55	23	-	40
Overbridges	7	6	(1)	-	9
Major structures	12	12	-	-	2
Tunnels	3	4	1	-	1
Minor works	27	19	(8)	-	17
Other	6	6	-	-	6
	87	**102**	**15**	**(3)**	**75**
Earthworks					
Earthworks - Embankments	26	19	(7)	-	29
Earthworks - Soil Cuttings	31	13	(18)	-	56
Earthworks - Rock Cuttings	13	6	(7)	-	27
Earthworks - Other	2	-	(2)	-	3
	72	**38**	**(34)**	**(26)**	**115**
Buildings					
Managed stations	9	8	(1)	-	7
Franchised stations	48	30	(18)	-	58
Light maint depots	3	3	-	-	9
Depot plant	4	-	(4)	-	1
Lineside buildings	8	-	(8)	-	4
MDU buildings	13	4	(9)	-	11
Other	-	-	-	-	-
	85	**45**	**(40)**	**(10)**	**90**
Electrical power and fixed plant					
AC distribution	1	2	1	-	1
Overhead Line	1	-	(1)	-	-
DC distribution	53	51	(2)	-	53
Conductor rail	20	14	(6)	-	22
Signalling Power Supplies	2	15	13	-	2
Other	3	31	28	-	5
Fixed plant	5	8	3	-	4
	85	**121**	**36**	**6**	**87**
Drainage					
Drainage (Track)	17	11	(6)	-	13
Drainage (Earthworks)	8	4	(4)	-	(1)
Drainage (Resilience)	-	-	-	-	1
	25	**15**	**(10)**	**(3)**	**13**
Property					
Property	27	38	11	-	31
	27	**38**	**11**	**-**	**31**
Total Regionally-managed renewals expenditure	**819**	**811**	**(8)**	**(37)**	**903**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	4	-	(4)	-	-
	4	**-**	**(4)**	**(4)**	**-**
Telecoms					
Operational communications	7	7	-	-	4
Network	1	2	1	-	1
SISS	28	23	(5)	-	8
Projects and other	-	1	1	-	1
Non-route capital expenditure	13	15	2	-	15
	49	**48**	**(1)**	**(3)**	**29**
Wheeled plant and machinery					
High output	-	4	4	-	-
Incident response	-	-	-	-	-
Infrastructure monitoring	1	5	4	-	1
Intervention	1	7	6	-	3
Materials delivery	2	5	3	-	3
On track plant	2	7	5	-	1
Seasonal	3	13	10	-	1
Other	5	9	4	-	8
	14	**50**	**36**	**-**	**17**
Route Services					
Business Improvement	8	-	(8)	-	11
IT Renewals	4	17	13	-	6
Asset Information	1	1	-	-	2
Other	1	3	2	-	3
	14	**21**	**7**	**-**	**22**
STE Renewals					
Intelligent infrastructure	14	13	(1)	-	21
Faster Isolations	39	28	(11)	-	11
Centrally Managed Signalling Costs	1	3	2	-	1
Research and development	10	13	3	-	10
Integrated Management System (Incl. BCR)	-	4	4	-	-
Other National SCADA Programmes	1	2	1	-	4
Small plant	2	2	-	-	1
Other	17	2	(15)	-	18
	84	**67**	**(17)**	**-**	**66**
Property					
Property	1	39	38	-	1
	1	**39**	**38**	**-**	**1**
Other renewals					
ETCS	-	3	3	-	1
Digital Railway	5	5	-	-	5
Civils & Drainage - Insurance Fund	1	6	5	8	-
Buildings - Insurance Fund	1	3	2	-	-
OPEX/CAPEX Adjustment	(40)	(14)	26	-	(27)
Phasing overlay	-	(32)	(32)	-	-
System Operator	7	6	(1)	-	6
Other renewals	11	(4)	(15)	-	(1)
	(15)	**(27)**	**(12)**	**8**	**(16)**
Total centrally-managed renewals expenditure	**151**	**198**	**47**	**1**	**119**
TOTAL RENEWALS EXPENDITURE	**970**	**1,009**	**39**	**(36)**	**1,022**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	244	232	(12)	-
PL Replace Partial	106	77	(29)	-
PL High Output	19	21	2	-
PL Refurbishment	110	90	(20)	-
PL Track Slab Track	6	3	(3)	-
Switches & Crossing - Replace	190	219	29	-
Switches & Crossing - Other	74	58	(16)	-
Off Track	85	36	(49)	-
Track Other	32	33	1	-
	866	**769**	**(97)**	**10**
Signalling				
Signalling Full	447	443	(4)	-
Signalling Partial	57	25	(32)	-
Signalling Refurb	75	96	21	-
Level crossings	65	68	3	-
Minor works	123	84	(39)	-
Other	4	21	17	-
	771	**737**	**(34)**	**(80)**
Civils				
Underbridges	129	199	70	-
Overbridges	24	36	12	-
Major structures	19	19	-	-
Tunnels	8	15	7	-
Minor works	77	71	(6)	-
Other	21	30	9	-
	278	**370**	**92**	**(6)**
Earthworks				
Earthworks - Embankments	156	63	(93)	-
Earthworks - Soil Cuttings	156	66	(90)	-
Earthworks - Rock Cuttings	58	20	(38)	-
Earthworks - Other	7	1	(6)	-
	377	**150**	**(227)**	**(100)**
Buildings				
Managed stations	24	40	16	-
Franchised stations	242	144	(98)	-
Light maint depots	23	1	(22)	-
Depot plant	12	15	3	-
Lineside buildings	28	5	(23)	-
MDU buildings	41	19	(22)	-
Other	-	-	-	-
	370	**224**	**(146)**	**(23)**
Electrical power and fixed plant				
AC distribution	8	22	14	-
Overhead Line	1	1	-	-
DC distribution	152	125	(27)	-
Conductor rail	66	51	(15)	-
Signalling Power Supplies	13	44	31	-
Other	25	100	75	-
Fixed plant	16	21	5	-
	281	**364**	**83**	**7**
Drainage				
Drainage (Track)	52	53	1	-
Drainage (Earthworks)	15	13	(2)	-
Drainage (Resilience)	1	-	(1)	-
	68	**66**	**(2)**	**(11)**
Property				
Property	71	63	(8)	-
	71	**63**	**(8)**	**-**
Total Regionally-managed renewals expenditure	**3,082**	**2,743**	**(339)**	**(203)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	9	-	(9)	-
	9	**-**	**(9)**	**(4)**
Telecoms				
Operational communications	16	24	8	-
Network	3	11	8	-
SISS	45	97	52	-
Projects and other	2	4	2	-
Non-route capital expenditure	64	62	(2)	-
	130	**198**	**68**	**(8)**
Wheeled plant and machinery				
High output	-	20	20	-
Incident response	-	-	-	-
Infrastructure monitoring	4	13	9	-
Intervention	10	22	12	-
Materials delivery	5	21	16	-
On track plant	3	16	13	-
Seasonal	8	30	22	-
Other	17	13	(4)	-
	47	**135**	**88**	**-**
Route Services				
Business Improvement	51	31	(20)	-
IT Renewals	23	52	29	-
Asset Information	5	6	1	-
Other	6	5	(1)	-
	85	**94**	**9**	**-**
STE Renewals				
Intelligent infrastructure	56	41	(15)	-
Faster Isolations	97	118	21	-
Centrally Managed Signalling Costs	5	9	4	-
Research and development	39	39	-	-
Integrated Management System (Incl. BCR)	-	11	11	-
Other National SCADA Programmes	16	16	-	-
Small plant	5	8	3	-
Other	55	13	(42)	-
	273	**255**	**(18)**	**-**
Property				
Property	12	59	47	-
	12	**59**	**47**	**-**
Other renewals				
ETCS	9	16	7	-
Digital Railway	10	(3)	(13)	-
Civils & Drainage - Insurance Fund	3	23	20	19
Buildings - Insurance Fund	1	11	10	-
OPEX/CAPEX Adjustment	(99)	(48)	51	-
Phasing overlay	-	(105)	(105)	-
System Operator	17	17	-	-
Other renewals	(8)	(1)	7	2
	(67)	**(90)**	**(23)**	**21**
Total centrally-managed renewals expenditure	**489**	**651**	**162**	**9**
TOTAL RENEWALS EXPENDITURE	**3,571**	**3,394**	**(177)**	**(194)**

Statement 3.6: Analysis of renewals expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year but lower than last year's outturn. This is mainly due to the high inflation rate used to uplift the previous year's expenditure in line with the Regulatory Accounting Guidelines. Also, industrial action impacted delivery as a number of jobs had to be rescheduled and funds diverted away from core renewals programmes to cover the compensation costs payable to operators. Expenditure in the control period to date is higher than the regulatory expectation as contingent asset money (shown as risk funds in the regulatory baseline in Statement 1) has been incorporated into the core plans to deliver improvements to the railway infrastructure. Net financial underperformance has been reported across the portfolio this year and for the control period to date with Signalling and Earthworks being the largest contributors as discussed below.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year but remains higher than the control period to date assumption. The higher investment is largely in line with the adverse financial performance reported which has largely been due to Earthworks, including emergency works, and Signalling. The control period to date is higher than the regulator expected reflecting the draw down and utilisation of risk funds included in the regulatory baseline. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank so the additional spend in the control period to date is unsurprising. Financial underperformance has been recognised across almost all asset categories as discussed below. Costs are lower than the previous year. This is mostly due to the exceptionally high November 2022 CPI used to uplift the prior year in line with the Regulatory Accounting Guidelines, whereas costs incurred have not generally risen as quickly. Renewals expenditure was lower than the regulatory baseline this year. This includes the impact of the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. In addition, there has been reduced track activity this year.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(2) Track – expenditure is lower than the regulatory baseline this year but still remains ahead across the control period to date. This includes the impact of additional delivery costs relating to Track worker safety programme costs. Financial outperformance reported this year includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Costs are lower than the previous year as more work was profiled towards the earlier years of the control period.

(3) Signalling – expenditure is slightly higher than the control period to date baseline. This includes the impact of financial underperformance which includes: life extension programme in Southampton having increased scope as well as higher unit rates than assumed, Relay Re-Servicing programmes have had increased complexity and consequentially increased use of access and contractors, impact of Covid-19, including delays caused to Hither Green commissioning in Easter 2020, higher tender and contractor prices compared to expectations, delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project and higher component market prices. Costs are similar to the prior year. Programmes at Feltham and Balham & Clapham are the largest schemes again this year.

(4) Civils – expenditure this year is lower than the regulatory baseline compounding the impact of lower delivery earlier in the control period. In CP6, there has been greater focus on other assets, notably Earthworks, meaning funding has had to be reprioritised around the renewals portfolio. Some financial underperformance has been recognised this control period so far. This includes the impact of delivery and access issues, such as delays at Oxted viaduct which had a 12 month completion delay from weather conditions affecting productivity, increased complexity and scope requirements, such as additional brickwork repair costs and vegetation removal, Covid-19 led to a number of schemes having to be deferred, which has caused projects to incur prolongation costs, difficulty accessing sites across land owned by third parties and abortive costs from funding reprioritisation in light of wider fiscal pressures. Expenditure is higher than the previous year including significant investment at Ryde Pier.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(5) Earthworks – investment was noticeably higher than the regulatory baseline this year, continuing the trend of earlier in the control period. This control period Southern have invested much more heavily in Earthworks than planned, including reacting to the Stonehaven tragedy and remedial works to mitigate risk of similar events in Southern. More volumes have been delivered to improve asset condition as the assets across the region are not in the required condition. However, the extra work has come at a higher than expected cost, meaning financial underperformance has been reported this control period. Inclement weather, namely storms Dudley, Eunice and Franklin, a large number of emergency and reactive works were required in 2021/22. This has seen a significant increase in volume which has led to this increase in spend but also large increase in financial underperformance. This is largely relating to access difficulties, for example Sussex route had difficulties due to the interface between assets and third party property being more involved than budgeted thus requiring bespoke delivery methods. Furthermore, access roads flooded and landowners prevented access in Bearhurst. Balcombe embankment has increased costs resulting from contractors proposing a change in their methodology. Asset condition has been a persistent issue across the control period with Kent route suffering over 15 landslips across various locations which put the safe running of the railway at risk. Higher like-for-like costs also included construction of ballast bag walls to catch falling material, challenging crest access, delays in material delivery to site prolongating projects and higher contractor costs on some schemes. Contractor performance, failed delivery requiring remediation and access difficulties have also helped cause higher like-for-like costs across the portfolio. Investment is lower than the previous year as the extra investment planned in Southern was phased into earlier years of CP6.

(6) Buildings – investment exceeded the regulatory baseline again this year, continuing the trend of earlier years of the control period, with notably higher investment in Franchised stations, but also Light maintenance depots and Lineside buildings where minimal work was planned for CP6. This includes projects directly delivered by Southeastern and Govia Thameslink Railway operators, full paint job and replacement decks, canopy repairs, enhanced tactiles to improve passenger journeys and roof remediation at Victoria station. Lower footfall dyring Covid-19 provided an opportunity to undertake work with minimal passenger disruption. Financial underperformance has been recognised this control period. This includes: The Brockley footbridge remedial works found that there had been greater deterioration than was expected and budgeted for, the accommodation upgrade in Sussex delivered fewer volumes than anticipated and higher contractor prices reflecting increased complexity and market pressures. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(7) Electrical power and fixed plant – investment in the year was lower than the regulatory expectation continuing the trend of earlier years in the control period. Financial outperformance has been recognised this year from benefits from earlier contractor involvement in design stages, development of in-house works delivery capabilities to provide more flexibility in delivery and better contracting integration, combining numerous projects into a single tender.

(8) Drainage – expenditure this year was higher than the regulatory baseline which has brought the year to date in line with the regulatory expectation. Financial underperformance has been recognised this control period arising from: worse asset condition than expected requiring more intrusive surveys and delays, difficulty securing access, higher number of contractor variations, lost volumes as the Queen's funeral necessitated cancelling activity whilst still incurring most of the costs and delays in agreeing contractor framework for CP6 and shortage of drainage plant in 2019/20. Spend is higher than the year before as control period activity was caught up.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(9) Property – expenditure is lower than the regulatory baseline this year but ahead for the control period to date. The extra costs this control period are more than offset by lower investment from the centrally-managed Property budget allocated to Southern. There was significant investment this year at Waterloo station retail areas.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery and property being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is higher than the previous year, including a step up on Telecoms – SISS portfolio and STE projects

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

(3) Telecoms – expenditure was broadly in line with the regulatory baseline this year but much lower in the control period mainly due to slippage on SISS portfolio – particularly CIS CCTV. Whilst there was some catch up this year and further catch up planned for next year overall expenditure will likely be lower than the regulatory baselines of the control period. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

a. High output – investment was lower than the regulatory baseline this year which added to the overall underspend position in the control period to date as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value.

b. Infrastructure monitoring – costs are lower than the regulatory baseline and in line with last year's spend. The spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date. The primary cause of the underspend for the control period to date is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year, expenditure was, once again, lower than the regulatory baseline, continuing the trend of the control period so far. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend of the control period to date. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories. Spend is lower than the previous year which included investment in fleet support plant where additional facilities renewals have been identified.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year which is partly due to the high inflation rate applied to the prior year comparative in line with Regulatory Accounting Guidelines and partly due to more of the programme outputs having been delivered by this point of the control period. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline this year which reverses some of the underspends reported in previous years. The reduced spend in the control period to date is due to delays in identifying suitable programmes resulting in slippage in the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Integrated Management System – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

d. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

(7) Property – expenditure is significantly lower than the regulatory baseline this year and control period to date partially due to the fact centrally managed renewals have been devolved out to regional teams to manage. In addition, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. The lower spend in the control period to date is due to the same factors.

(8) Other – investment is higher than the regulatory baseline in the current year and the control period to date, mainly due to the impact of the Phasing delay. Notable items in the Other category include:

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as the programme has been revaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is lower than the regulatory baseline due to some one-off benefits reported 2019/20. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

Southern
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	10	1	8	149	152	8
Cardiff Central Operational Resilience	-	-	-	-	-	-
Brighton Mainline Upgrade Programme	5	6	-	74	75	-
West Anglia Main Line Capacity	-	-	-	-	-	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	13	-
Critical Stations Improvement Fund	14	9	1	27	38	1
Gatwick Station	59	56	(20)	166	168	(21)
SFN-Freight Forecasts project	-	(3)	(2)	20	20	2
Access for All	29	18	-	69	84	-
Thameslink Resilience Programme	(2)	(5)	2	15	18	3
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Portfolio Contingency (including T-12)	-	-	-	4	6	14
Depots & Stabling Fund	1	4	-	25	29	-
Feltham	-	1	-	9	10	-
Restoring Your Railway	4	4	-	9	9	-
Ashford to Ramsgate	1	(5)	-	3	3	-
Clapham Junction Short-term	5	3	-	7	8	-
Denmark Hill Congestion Relief	-	(1)	-	3	7	-
Tactile Paving Installation	5	4	-	7	7	-
New Stations Fund	-	-	-	2	5	-
Other	9	(6)	4	59	12	(2)
Total	**140**	**87**	**(7)**	**676**	**679**	**5**
Other Capital Expenditure	**3**	**-**	**-**	**38**	**-**	**-**
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	32	-	-	99	-	-
Total	32	-	-	99	-	-
Total enhancements	**175**	**87**	**(7)**	**813**	**679**	**5**
Total enhancements less Other third party funded schemes	143	87	(7)	714	679	5

Statement 3.7: Analysis of enhancement expenditure, Southern

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the Southern's core funder (DfT).

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Southern's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £143m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£175m) less the PAYGO schemes funded by third parties (£32m).

(2) Enhancement expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Some marginal financial outperformance has been recognised so far this control period, although there are offsetting movements across the portfolio. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)).

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls

approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in Southern. Some notable variances at programme level include:

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

a. Thameslink – the programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Expenditure this year is greater than baseline which brings the control period to date position broadly in line with the funding baseline. Financial outperformance has been recognised for the year achieved through efficiencies on Automatic Route Settings (ARS), and contingency management.

b. Critical station improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Station improvements at Surbiton, Peckham Rye, London Liverpool Street and Stratford and other projects. . Whilst additional works were delivered this year compared to the funding baseline, the overall package remains behind the regulatory baselines for the control period to date. Works have progressed slower than anticipated in year due to delay in scope finalisation and release of government investment.

c. Gatwick Airport Station – the project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Whilst progress is largely in line with the funding baseline, the programme is now expected to cost more overall and so adverse financial performance has been recognised. This is a result of additional design works and scope required to meet regulatory standards relating to improved physical security at the station.

d. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but the control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

e. Portfolio Contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance helps offset financial underperformance elsewrecognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

f. Ashford to Ramsgate – whilst expenditure is was lower than the baseline in the current year the control period to date investment is broadly consistent with the funding available.

g. New Stations fund – expenditure on this portfolio is lower than the funding available in the control period to date as fewer projects than expected have been identified and progressed.

h. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

Statement 3.7: Analysis of enhancement expenditure, Southern - continued

In £m cash prices unless stated

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – notable schemes delivered this year include Thanet Parkway and Gatwick Station development.

Southern
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23		Unit	FY23 AFC	FY23 AFV	FY23 Unit Costs	FY22 AFC	FY22 AFV	FY22 Unit Costs
Track	PL Replace Full	km	108	76	1,421	61	45	1,356
	PL Replace Partial	km	31	62	500	69	184	375
	PL High Output	km	-	-	-	-	-	-
	PL Refurbishment	km	35	131	267	71	271	262
	PL Track Slab Track	km	4	-	-	1	1	1,000
	Switches & Crossing - Replace	point ends	29	48	604	49	79	620
	Switches & Crossing - Other	point ends	18	147	122	48	439	109
	Off Track	km/No.	31	364	85	59	1,676	35
	Track Other		-	-	-	-	-	-
	Total		**256**			**358**		
Signalling	Signalling Full	SEU	155	258	601	48	135	356
	Signalling Partial	SEU	42	83	506	6	19	316
	Signalling Refurb	SEU	82	177	463	32	62	516
	Level crossings	No.	42	42	1,000	6	23	261
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**321**			**92**		
Civils	Underbridges	m2	42	14,575	3	54	11,965	5
	Overbridges (incl BG3)	m2	12	7,530	2	13	4,492	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	5	23,027	0	1	363	3
	Culverts	m2	1	135	7	1	442	2
	Footbridges	m2	4	1,114	4	4	429	9
	Coastal & Estuarial Defences	m2	-	-	-	1	10	100
	Retaining Walls	m2	-	-	-	-	78	-
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**64**			**74**		
Earthworks	Earthworks - Embankments	No.	54	525	103	48	346	139
	Earthworks - Soil Cuttings	No.	64	787	81	82	801	102
	Earthworks - Rock Cuttings	No.	27	141	191	30	146	205
	Earthworks - Other	No.	-	1	-	-	-	-
	Drainage - Earthworks	m	10	35,448	0	4	19,032	0
	Drainage - Other	m	53	92,887	1	40	72,674	1
	TOTAL		**208**			**204**		
Buildings	Buildings (MS)	m2	1	1,577	1	1	470	2
	Platforms (MS)	m2	1	1,104	1	-	100	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	2,655	-	1	11,110	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	-	-	-	-	1	-
	Buildings (FS)	m2	19	54,298	0	10	49,758	0
	Platforms (FS)	m2	4	6,935	1	21	49,554	0
	Canopies (FS)	m2	13	21,224	1	12	8,244	1
	Train sheds (FS)	m2	5	4,867	1	-	550	-
	Footbridges (FS)	m2	13	4,260	3	18	3,952	5
	Lifts & Escalators (FS)	m2	-	5	-	2	2	1,000
	Other (FS)	m2	21	198,306	0	9	86,086	0
	Light Maintenance Depots	m2	5	38,292	0	1	1,690	1
	Depot Plant	m2	4	13	308	-	-	-
	Lineside Buildings	m2	20	48,873	0	15	42,887	0
	MDU Buildings	m2	13	23,293	1	22	33,866	1
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**119**			**112**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	90	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	32	98	327	34	98	347
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	38	59	644	20	25	800
	HV cables DC	km	51	56	911	39	48	813
	LV cables DC	km	13	39	333	4	23	174
	Transformer Rectifiers DC	No.	6	4	1,500	2	1	2,000
	LV switchgear renewal DC	No.	9	35	257	2	18	111
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	5	62	81	-	-	-
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	9	109	83	-	-	-
	Signalling Power Cables	km	6	49	122	7	56	125
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		12	563	21	12	84	143
	Total		**181**			**120**		
Telecoms	Customer Information Systems	No.	23	1,157	20	-	-	-
	Public Address	No.	4	3,130	1	-	-	-
	CCTV	No.	18	3,702	5	-	-	-
	Other Surveillance	No.	-	5	-	-	-	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		3	207	14	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**48**			**-**		

Statement 3.8: Analysis of renewals unit costs, Southern

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - PL Replace full unit rate has increased across the year. This is due to the different work bank mix that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Other contributing factors include raw material and contractor inflation driven by the macro-economic environment. The unit rate of PL Replace Partial increased which can be explained by inflation increasing input prices and the NOPS 2022/23 Rerailing Programme. The Programme delivered 1/3 of all volumes but suffered from numerous incidents which led to a reduction in the volumes delivered causing the unit rate to increase. PL Track Slab unit rate has increased although due to the small sample size of only 3 projects, we are unable to establish any meaningful data trends. There has been an increase in the unit rate in Off Track in the year. However, Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore, each year there will be a different mix in the renewal work being done making it difficult to do any comparisons

(3) Signalling – Signalling Full unit rates have increased which can be attributed to projects such as the Virginia Water & Ascot Resignalling Project. This project suffered from delays and design changes which caused the project to increase thereby increasing the unit rate. The unit rate for a Signalling Partial has increased significantly. This can be explained by the fact there was only one project which was the Balham and Clapham Resignalling Project which links up to Victoria station in London. Due to the location and complexity, this project was more expensive than most other Signalling Partial projects. As mentioned previously, location

as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Level Crossings unit rate has increased significantly with numerous projects experiencing problems throughout the year. These include the Virginia Water & Ascot project and the Windsor & Staines programme, which both suffered from increased contractor costs and the effects of material inflation driven by the macro-economic environment.

Statement 3.8: Analysis of renewals unit costs, Southern – continued

In £m cash prices unless stated

(4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – The Earthworks Embankments unit rate has decreased. One reason for this could be the influence of the WD Enhanced Vegetation Management project which managed to deliver additional volumes due to efficient working practices. Another reason is work bank mix because in 2022/23 a higher proportion of the cheaper maintain work was delivered compared to the previous year. Within Earthworks categories there are three subcategories; maintain, renew and refurb. All three offer different life extension outcomes as well as different cost outcomes with renew being the most expensive and maintain being the cheapest. Embankments Soil Cuttings unit rate has increased for similar work bank mix reasons. In addition, projects including the Wessex CP6 Monitory Installation and Maintenance required a project cost increase due to monitoring visits not being included in the initial estimates.

(6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(7) Electrical Power and Fixed Plant – The unit rate of HV switchgear renewal DC has decreased which can be explained by the fact in 2021/22 there was only one project with a lower unit rate than in previous years. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. HV Cables DC unit rate has increased which can be explained by factors such as a project cost increase caused by job complexity on the CP6 KNT HV Cable Replacement project. Transformer Rectifiers DC unit rate has decreased due to the efficient delivery of an additional volume below unit cost. However, because only one project has been delivered it is impossible to make any meaningful analysis on the unit rate. The LV Switchgear renewal DC unit rate has increased and can be attributed to CP6 Kent LV Switchgear Renewal project where the project cost has been increased due to project prolongation. However, as mentioned previously, due to only being one project delivering volumes, meaningful unit rate data trends cannot be produced. LV Cables DC unit rate has increased which can be attributed to inflationary pressures affecting material prices and our contracts with third party contractors.

(8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Southern
Statement 4: Regulatory financial position
Cash prices

Regulatory asset base (RAB)
2022-23

	£m
Opening RAB (2020-21 Actual prices)	**16,696**
Indexation to 2021-22 prices	18,482
RAB additions	
Renewals expenditure	970
Enhancements expenditure	-
Less amortisation	(970)
Property Sales	(7)
Closing RAB	**18,475**

Net debt

	£m
Opening net debt	**12,486**
Income	(2,320)
Expenditure	2,286
Financing Costs - Government borrowing	185
Financing Costs - index linked debt	725
Financing Costs - Other	29
Corporation tax	(13)
Working capital	(32)
Closing net debt	**13,346**

Statement 4: Regulatory financial position, Southern

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Southern part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £1.0bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Southern and how it has moved during the year.

(8) Network Rail's debt attributable to Southern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Southern – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Wales & Western
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Income					
Grant Income	1,070	1,051	19	-	1,014
Franchised track access charges	535	556	(21)	(4)	507
Other Single Till Income	90	90	-	(1)	94
Total Income	**1,695**	**1,697**	**(2)**	**(5)**	**1,615**
Operating expenditure					
Network operations	102	86	(16)	(16)	109
Support costs	154	139	(15)	(2)	160
Traction electricity, industry costs and rates	92	112	20	(1)	93
Maintenance	287	267	(20)	(15)	296
Schedule 4	126	38	(88)	(91)	38
Schedule 8	61	18	(43)	(43)	(3)
	822	**660**	**(162)**	**(168)**	**693**
Capital expenditure					
Renewals	704	654	(50)	(45)	623
Enhancements	161	81	(80)	(18)	286
	865	**735**	**(130)**	**(63)**	**909**
Risk expenditure					
Risk (Centrally-held)	-	42	42	-	-
Risk (Route-controlled)	-	31	31	-	-
Risk (Contingent asset management funding)	-	36	36	-	-
	-	**109**	**109**	**-**	**-**
Other expenditure					
Financing costs	787	441	(346)	-	589
Corporation tax	(6)	10	16	-	-
	781	**451**	**(330)**	**-**	**589**
Total expenditure	**2,468**	**1,955**	**(513)**	**(231)**	**2,191**
Total Financial Out/(under) performance				**(236)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	3,686	3,885	(199)	-
Franchised track access charges	1,834	1,928	(94)	(12)
Other Single Till Income	801	341	460	(15)
Total Income	**6,321**	**6,154**	**167**	**(27)**
Operating expenditure				
Network operations	380	339	(41)	(43)
Support costs	555	579	24	43
Traction electricity, industry costs and rates	348	398	50	1
Maintenance	1,085	1,031	(54)	(65)
Schedule 4	227	141	(86)	(100)
Schedule 8	(16)	38	54	53
	2,579	**2,526**	**(53)**	**(111)**
Capital expenditure				
Renewals	2,282	2,283	1	(112)
Enhancements	1,031	887	(144)	(126)
Other	-	-	-	-
	3,313	**3,170**	**(143)**	**(238)**
Risk expenditure				
Risk (Centrally-held)	-	98	98	-
Risk (Route-controlled)	-	81	81	-
Risk (Contingent asset management funding)	-	90	90	-
	-	**269**	**269**	**-**
Other expenditure				
Financing costs	2,053	1,773	(280)	-
Corporation tax	-	22	22	-
	2,053	**1,795**	**(258)**	**-**
Total expenditure	**7,945**	**7,760**	**(185)**	**(349)**
Total Financial Out/(under) performance				**(376)**

Statement 1: Summary of regulatory financial performance, Wales & Western

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail’s net expenditure (Total income less Total expenditure) was around £0.5bn higher than the regulatory baseline this year and broadly neutral for the control period to date. The largest component of the higher net expenditure experienced this year relates to higher interest costs, largely from higher inflation increasing the costs of accreting debt instruments.

(2) This statement also shows that Network Rail Western has recognised financial underperformance of £236m this year and £376m for the control period to date. This year has been significantly impacted by industrial action, across the performance regime, revenue and the cost of capital projects. Underperformance for the control period to date also includes the impact of Covid-19 which resulted in significantly lower property income, reduced franchised track access charges due to running fewer trains and higher maintenance costs being partially offset by improvements in the train performance regime.

(3) Income – Grant income in the year was broadly in line with the regulatory baseline. Core network grants were higher, bringing the control period to date position generally in line with the regulator’s expectation. This was offset by lower Internal financing grants as interest rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. In the control period to date, lower average interest rates have meant lower grants to cover these costs. Grant income is higher than the previous year reflecting the varying levels of activity in Wales & Western this year compared to the previous year. Variances in Grant income is outside of the scope of financial performance. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the year were lower than the baseline including lower traction electricity charges, which is offset by lower costs in Traction electricity costs. Income is lower in the control period to date for the same reason but also from reduced fixed track access charges as inflation has been generally lower in the control period to date compared to the regulatory expectation. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is higher than last year reflecting planned increases in fixed track access payments. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

(5) Income – Other single till income in the year is broadly in line with the regulatory baseline and the prior year. The control period to date income is much higher than the regulatory expectation due to the proceeds received from disposing of part of the network in Wales (considered neutral when assessing financial performance). Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network Operations costs are higher than the regulatory expectation this year, continuing the trend of the earlier years of the control period. This year, the higher costs included the impact of fatigue management standards compliance, extra managed station services for travelling public, costs associated with the new Elizabeth Line and other supplementary services. These factors are also present in the control period to date variance, as is the additional costs incurred during Covid-19, which included extra staff costs to provide appropriate cover for sick and self-isolating staff and managed stations cleaning. As to be expected, this has led to financial underperformance for the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure - Support costs are higher than the regulatory baseline this year mainly due to more projects being classified as opex rather than capex and higher Regionally-managed activity. This has been partly mitigated by workforce reform savings and reduced insurance costs. Costs for the control period to date are lower than the regulatory baseline as savings from centrally-managed activity has more than offset higher locally-managed costs. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). In addition, Business rates were lower than expected this year as the government postponed quinquennial increases in the wake of Covid-19. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year, due to extra work undertaken to improve assets and address backlogs as well as inflationary pressures on materials. The higher costs for the control period to date also include Network Rail's response to the Covid-19 pandemic, increased vegetation works and track worker safety compliance. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level. Maintenance costs are discussed in more detail in Statement 3.2.

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

In £m cash prices unless stated

(10) Operating expenditure – Schedule 4 costs are much higher than the regulatory baseline this year. Industrial action this year has required a reduction in the services that can be safely run, meaning that as services are taken out of the timetable, Network Rail has paid compensation to operators. The additional costs in the control period to date are largely due to the same circumstance. When assessing financial performance in this year, baselines are adjusted to reflect the level of renewals delivered. Costs are significantly higher this year than in the previous year due to the aforementioned industrial action impact. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The control period to date remains favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers Schedule 8 flows are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is higher than the regulatory baseline this year which brings the control period to date broadly in line with the control period. However, there has been financial underperformance reported so far this control period which is due to multitude of factors, but primarily relates to delivery within the Track and Signalling portfolio. Spend is higher than last year with steps up in Track and Signalling activity. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year is greater than the regulatory baseline and higher than the control period to date mainly due to the inclusion of additional Crossrail schemes that haven't been funded through the core DfT enhancements grant. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised the further along we move into the control period. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

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

In £m cash prices unless stated

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. The high level of inflation this year has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation this year is also driving the adverse control period to date position and the increase in financing costs compared to the previous year. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(16) Other expenditure – following changes in legislation and financial forecasts, Network Rail is expecting to receive corporation tax rebates for payments made earlier in the control period and so this income is recognised this year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western
Statement 2: Analysis of income
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	357	366	(9)	-	330
Variable usage charge	34	36	(2)	(2)	35
Electrification asset usage charge	2	3	(1)	(1)	2
Capacity charge	-	-	-	-	-
Open access income	12	11	1	1	12
Managed stations long term charge	9	8	1	1	9
Franchised stations long term charge	24	27	(3)	(3)	25
Traction electricity charges	48	56	(8)	-	45
Schedule 4 access charge supplement	28	28	-	-	30
	514	**535**	**(21)**	**(4)**	**488**
Other single till income					
Freight income					
Freight variable usage charge	10	12	(2)	(2)	12
Freight other income	-	-	-	-	-
	10	**12**	**(2)**	**(2)**	**12**
Stations income					
Managed stations qualifying expenditure	12	11	1	1	12
Franchised stations lease income	6	6	-	-	6
	18	**17**	**1**	**1**	**18**
Facility and financing charges					
Facility charges	16	16	-	-	18
	16	**16**	**-**	**-**	**18**
Property income					
Property rental	25	29	(4)	(4)	24
Property sales	1	1	-	-	3
	26	**30**	**(4)**	**(4)**	**27**
Depots Income	**11**	**12**	**(1)**	**(1)**	**12**
Other income	**2**	**-**	**2**	**2**	**2**
Freight traction electricity charges	**1**	**1**	**-**	**-**	**2**
Total other single till income	**84**	**88**	**(4)**	**(4)**	**91**
Total Regionally-managed income	**598**	**623**	**(25)**	**(8)**	**579**
Centrally-managed income					
Network grant	844	734	110	-	736
Internal financing grant	111	187	(76)	-	135
External financing grant	109	109	-	-	131
BTP grant	12	11	1	-	12
Corporation tax grant	(6)	10	(16)	-	-
Infrastructure cost charges	13	13	-	-	11
Schedule 4 access charge supplement	8	8	-	-	8
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	1,091	**1,072**	**19**	**-**	1,033
Other single till income					
Property income					
Property rental	2	-	2	2	2
Property sales	4	2	2	1	1
	6	**2**	**4**	**3**	**3**
Total other single till income	**6**	**2**	**4**	**3**	**3**
Total centrally-managed income	**1,097**	**1,074**	**23**	**3**	**1,036**
Total income	**1,695**	**1,697**	**(2)**	**(5)**	**1,615**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,172	1,217	(45)	-
Variable usage charge	130	135	(5)	(5)
Electrification asset usage charge	8	11	(3)	(3)
Capacity charge	2	-	2	2
Open access income	43	41	2	2
Managed stations long term charge	33	32	1	1
Franchised stations long term charge	97	106	(9)	(9)
Traction electricity charges	88	109	(21)	-
Schedule 4 access charge supplement	105	105	-	-
	1,678	**1,756**	**(78)**	**(12)**
Other single till income				
Freight income				
Freight variable usage charge	40	42	(2)	(3)
Freight other income	-	-	-	-
	40	**42**	**(2)**	**(3)**
Stations income				
Managed stations qualifying expenditure	45	43	2	2
Franchised stations lease income	21	21	-	-
	66	**64**	**2**	**2**
Facility and financing charges				
Facility charges	64	64	-	-
	64	**64**	**-**	**-**
Property income				
Property rental	56	82	(26)	(26)
Property sales	7	7	-	-
	63	**89**	**(26)**	**(26)**
Depots Income	**43**	**44**	**(1)**	**(1)**
Other income	**8**	**2**	**6**	**7**
Freight traction electricity charges	**3**	**2**	**1**	**-**
Total other single till income	**287**	**307**	**(20)**	**(21)**
Total Regionally-managed income	**1,965**	**2,063**	**(98)**	**(33)**
Centrally-managed income				
Network grant	2,649	2,654	(5)	-
Internal financing grant	501	669	(168)	-
External financing grant	493	497	(4)	-
BTP grant	43	43	-	-
Corporation tax grant	-	22	(22)	-
Infrastructure cost charges	44	45	(1)	-
Schedule 4 access charge supplement	26	26	-	-
Traction electricity charges	86	101	(15)	-
Freight traction electricity charges	2	1	1	-
	3,844	**4,058**	**(214)**	**-**
Other single till income				
Property income				
Property rental	33	26	7	8
Property sales	479	7	472	(2)
	512	**33**	**479**	**6**
Total other single till income	**512**	**33**	**479**	**6**
Total centrally-managed income	**4,356**	**4,091**	**265**	**6**
Total income	**6,321**	**6,154**	**167**	**(27)**

Statement 2: Analysis of income, Wales & Western

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is broadly similar to the baseline this year and remains favourable for the control period to date following the divestment of the Cardiff Valley lines to Transport for Wales in 2019/20, which more than offsets reduced grant and operator income.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to lower Traction electricity income and Infrastructure charges. Along with reduced Property income arising from the impact of Covid-19, these factors are also the driver for the lower income in the control period to date. Income is marginally higher than the previous year mainly due to higher Infrastructure cost charges.

(2) Infrastructure cost charges – fixed charge income was slightly lower than the baseline this year continuing the trend from earlier in the control period. The shortfalls are mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year which was anticipated in the regulatory baselines.

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Whilst passengers are returning, demand is still lower than before the pandemic, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower control period to date income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail & entertainment industries and personal preferences all contributing to reduced demand.

(4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

Statement 2: Analysis of income, Wales & Western – continued

In £m cash prices unless stated

(5) Traction electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Revenue this year is lower than the regulatory assumption. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Revenue for the control period to date remains lower than the regulator's expectation as expected price rises have yet to materialise or have been negated by purchasing future requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Additionally, since the Covid-19 pandemic began, a reduced number of train services were being ran than was assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. From 2021/22, Network Rail has allocated traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relates to income recognised after that. Income was higher than the previous year reflecting increases in market prices. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.

(6) Property rental – this year's income is lower than the regulatory expectation due to the impact of Covid-19 and the impact on passenger numbers and station footfall. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The size of the improvement is stifled by the exceptionally high November 2022 CPI which is used to inflate the prior year comparative per the Regulatory Accounting Guidelines. The control period to date rental income is significantly lower than the regulatory baseline as although Covid-19s impact is decreasing year on year, the effects are still supressing demand

Centrally-managed income

(1) Aggregate Centrally-managed income is broadly similar to the CP6 baseline this year. Control period to date centrally managed income is higher than the regulatory baseline due to divestment of part of the network in Wales which more than offsets lower Internal financing grant income. Income is higher than the previous year mainly due to higher Network grant income.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which offsets reduced income in earlier years of the control period. This is as a result of different phasing of activity being undertaken than anticipated in the regulatory baseline and a different utilisation of the total DfT network grant in this region compared to the regulatory baseline's expectation. Income is higher than the previous year due to extra expenditure recognised this year, particularly within the performance regime (Schedule 4 & Schedule 8) and Renewals.

Statement 2: Analysis of income, Wales & Western – continued

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and control period to date, with corresponding grants also lower. Costs appear lower than the previous year, even though the average level of debt issued from DfT has increased marginally compared to the prior year. This is mainly due to the inflation uplift applied to the previous year. In line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position, especially due to the high level of November 2022 CPI used to uplift the 2021/22 figure.

(5) External financing grants – grants received are broadly similar to the regulatory baseline in both the current year and the control period to date. As Network Rail can no longer borrow from sources external to government, these grants relate to debt in place at the start of the control period with interest costs that were largely fixed, meaning the associated grant to cover these costs is also relatively stable. As expected in the determination baselines, revenue is lower than the previous year. In addition, in line with the ORR Regulatory Accounting Guidelines, the prior year comparative is increased with inflation which increases the variance compared to the nominal position. The impact is compounded this year as the 2021/22 income has been uplifted using November 2022 CPI, which was exceptionally high.

(6) Corporation tax grant – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.

(8) Traction Electricity charges – from 2021/22 these charges have been reallocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts in the control period to date represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(9) Property sales – current and prior year income was minimal broadly matching regulatory expectation. The control period to date number is much higher than the baseline due to the recognition of proceeds from the divestment of the Core Valley lines to Transport for Wales in 2019/20.

Wales & Western
Statement 3: Analysis of expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	99	81	(18)	(17)	104
Maintenance	267	257	(10)	(8)	287
Support costs	46	36	(10)	(10)	48
Traction electricity, industry costs and rates	84	104	20	(1)	85
Schedule 4	126	32	(94)	(97)	40
Schedule 8	58	17	(41)	(41)	(4)
	680	**527**	**(153)**	**(174)**	**560**
Capital expenditure					
Renewals	631	575	(56)	(44)	535
Enhancements	134	81	(53)	(18)	288
	765	**656**	**(109)**	**(62)**	**823**
Total Regionally-managed expenditure	**1,445**	**1,183**	**(262)**	**(236)**	**1,383**
Centrally-managed expenditure					
Operating expenditure					
Network operations	3	4	1	1	5
Maintenance	20	10	(10)	(7)	9
Support costs	108	103	(5)	8	112
Traction electricity, industry costs and rates	8	8	-	-	8
Schedule 4	-	6	6	6	(2)
Schedule 8	3	1	(2)	(2)	1
	142	**132**	**(10)**	**6**	**133**
Capital expenditure					
Renewals	73	79	6	(1)	88
Enhancements	27	-	(27)	-	(2)
	100	**79**	**(21)**	**(1)**	**86**
Risk Expenditure	**-**	**109**	**109**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
Financing costs	787	441	(346)	-	589
Taxation	(6)	10	16	-	-
	781	**451**	**(330)**	**-**	**589**
Total centrally-managed expenditure	**1,023**	**771**	**(252)**	**5**	**808**
Total expenditure	**2,468**	**1,954**	**(514)**	**(231)**	**2,191**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	367	323	(44)	(45)
Maintenance	1,037	993	(44)	(56)
Support costs	189	163	(26)	(26)
Traction electricity, industry costs and rates	162	195	33	(1)
Schedule 4	226	118	(108)	(123)
Schedule 8	(18)	34	52	51
	1,963	**1,826**	**(137)**	**(200)**
Capital expenditure				
Renewals	1,989	2,016	27	(128)
Enhancements	877	886	9	(128)
	2,866	**2,902**	**36**	**(256)**
Total Regionally-managed expenditure	**4,829**	**4,728**	**(101)**	**(456)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	13	16	3	2
Maintenance	48	38	(10)	(9)
Support costs	366	416	50	69
Traction electricity, industry costs and rates	186	203	17	2
Schedule 4	1	23	22	23
Schedule 8	2	4	2	2
	616	**700**	**84**	**89**
Capital expenditure				
Renewals	293	267	(26)	16
Enhancements	154	1	(153)	2
Other	-	-	-	-
	447	**268**	**(179)**	**18**
Risk Expenditure	**-**	**269**	**269**	**-**
Other				
Financing costs	2,053	1,773	(280)	-
Taxation	-	22	22	-
	2,053	**1,795**	**(258)**	**-**
Total centrally-managed expenditure	**3,116**	**3,032**	**(84)**	**107**
Total expenditure	**7,945**	**7,760**	**(185)**	**(349)**

Statement 3: Analysis of expenditure, Wales & Western

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, mainly due to higher financing costs and performance regime costs. The control period to date position is higher than the regulatory baseline as higher financing costs and higher capital investment have been more partly offset by presence of risk funds. Costs are higher than the previous year. Whilst there are a number of variances the largest are the increases in financing costs and performance regimes.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with greater expenses costs across almost all categories. For the control period to date costs are higher including higher operating costs and payments under the performance regime. Costs are higher than the previous year mainly due to variations in performance regime. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are higher than the regulatory baseline mainly due to a significant increase in financing costs as some Network Rail legacy debt instruments' expense vary with inflation, which hit 40-year highs this year. This more than offset savings made against the risk fund. The financial framework for CP6 provided risk funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement. Therefore, savings are expected every year against this line. Centrally-managed expenditure is lower in the control period to date as most of the risk funds available have been utilised at Regional level, and so are included in the Regionally-managed section of this statement, which has offset the higher financing costs experienced this year. Savings have also been made across a number of central functions. Costs are higher than the previous year mainly due to the aforementioned high financing costs this year. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Wales & Western
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	47	41	(6)	(6)	51
Operations Management	6	5	(1)	(1)	4
Controllers	9	12	3	3	9
Electrical control room operators	2	1	(1)	(1)	2
	64	**59**	**(5)**	**(5)**	**66**
Non signaller expenditure					
Mobile operations managers	8	6	(2)	(2)	8
Managed stations	14	11	(3)	(3)	15
Performance	2	3	1	1	2
Other	11	3	(8)	(8)	13
Total Regionally-managed Operations expenditure	**99**	**82**	**(17)**	**(17)**	**104**
Centrally-managed Operations expenditure					
Network Services	3	4	1	1	5
Total centrally-managed Operations expenditure	**3**	**4**	**1**	**1**	**5**
Total operations expenditure	**102**	**86**	**(16)**	**(16)**	**109**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	177	161	(16)	(16)
Operations Management	22	20	(2)	(2)
Controllers	37	46	9	9
Electrical control room operators	7	5	(2)	(2)
	243	**232**	**(11)**	**(11)**
Non signaller expenditure				
Mobile operations managers	27	23	(4)	(4)
Managed stations	53	44	(9)	(9)
Performance	8	12	4	4
Other	36	12	(24)	(25)
Total Regionally-managed Operations expenditure	**367**	**323**	**(44)**	**(45)**
Centrally-managed Operations expenditure				
Network Services	13	16	3	2
Total centrally-managed Operations expenditure	**13**	**16**	**3**	**2**
Total operations expenditure	**380**	**339**	**(41)**	**(43)**

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

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

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year, continuing the trend of the earlier years of the control period. This year, the higher costs included the impact of fatigue management standards compliance, extra managed station services for travelling public, costs associated with the new Elizabeth Line and other supplementary services. These factors are also present in the control period to date variance, as is the additional costs incurred during Covid-19, which included extra staff costs to provide appropriate cover for sick and self-isolating staff and managed stations cleaning. As to be expected, this has led to financial underperformance for the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation for this year and the Control Period to date. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic. In addition, extra resource has been required to ensure compliance with new fatigue management standards as well as for additional posts in Cornwall following successful implementation of resignalling programme. Costs are lower than the prior year comparative, but this is mainly due to the prior year comparative being uplifted using November 2022 CPI per the Regulatory Accounting Guidelines which is significantly higher than the actual increase in costs experienced from 2021/22 to 2022/23.

(3) Managed Stations – once again, costs are higher than the regulatory baseline. This includes staff at stations to offer a better service to the travelling public. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are broadly similar to the previous year.

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m cash prices unless stated

(4) Other – costs are higher than the regulatory target, both for this year, continuing the trend of earlier in the control period. This is due to higher consultancy costs, access charges to the new Elizabeth lines and additional staff for handling route crime. Costs are broadly similar to the previous year but include extra training costs that were managed by Regionally-managed Support Human Resources last year.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and the control period to date, as well as the previous year.

Wales & Western
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed maintenance expenditure					
Track	110	93	(17)	(6)	122
Signalling & Telecoms	50	46	(4)	(4)	59
Civils	27	31	4	(5)	19
Buildings	13	14	1	1	16
Electrical power and fixed plant	17	20	3	3	19
Other network operations	50	53	3	3	52
	267	**257**	**(10)**	**(8)**	**287**
Centrally-managed maintenance expenditure					
Telecoms	4	5	1	1	2
Route Services - Asset Information	5	6	1	1	7
STE Maintenance	1	-	(1)	(1)	1
Property	-	-	-	-	-
Route Services - Other	8	(2)	(10)	(7)	(1)
Other	2	1	(1)	(1)	-
	20	**10**	**(10)**	**(7)**	**9**
Total maintenance expenditure	**287**	**267**	**(20)**	**(15)**	**296**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	409	365	(44)	(33)
Signalling & Telecoms	201	179	(22)	(22)
Civils	100	122	22	3
Buildings	53	57	4	1
Electrical power and fixed plant	67	78	11	11
Other network operations	207	192	(15)	(16)
	1,037	**993**	**(44)**	**(56)**
Centrally-managed maintenance expenditure				
Telecoms	12	16	4	4
Route Services - Asset Information	21	23	2	1
STE Maintenance	3	3	-	-
Property	1	(2)	(3)	(3)
Route Services - Other	9	(2)	(11)	(11)
Other	2	-	(2)	-
	48	**38**	**(10)**	**(9)**
Total maintenance expenditure	**1,085**	**1,031**	**(54)**	**(65)**

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are slightly higher than the regulatory baseline this year with additional costs in both the Regionally-managed and Centrally-managed categories. Costs for the control period to date are higher than the regulatory baseline reflecting extra costs this year but also expenses responding to the Covid-19 pandemic, where we saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs are broadly consistent with the previous year.

Regionally-managed maintenance costs

(1) Total regionally-managed maintenance costs are slightly higher than the regulatory baseline this year, due to extra work undertaken to improve assets and address backlogs. The higher costs for the control period to date also include Network Rail's response to the Covid-19 pandemic, increased vegetation works and track worker safety compliance. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

(2) Track – track maintenance costs are the largest component of Wales & Western's maintenance costs. This year, costs are higher than the regulatory baseline continuing the trend of earlier years of the control period. The increased spend is linked to extra off-track spend and greater volumes of vegetation work as well as transfer of responsibility for drainage assets from Other maintenance in the original CP6 regulatory baseline to Track. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the increased costs that arose during our response to Covid-19 as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail's underlying costs did not increase by that level.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western - continued

In £m cash prices unless stated

(3) Signalling & telecoms –this year, costs are higher than the regulatory baseline continuing the trend of earlier years of the control period. The increased spend includes extra works undertaken to improve performance and tackle backlogs. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year, as well as the increased costs that arose during our response to Covid-19. Costs appear lower than the prior year comparative. This is mainly due to the 2021/22 costs being uplifted by the exceptionally high November 2022 CPI in line with the Regulatory Accounting Guidelines. Network Rail’s underlying costs did not increase by that level.

(4) Civils – costs were lower than the regulatory baseline this year, mainly due to reduced levels of reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail’s Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail’s financial performance. This is in line with the treatment set out in Network Rail’s financial performance guidelines which have been agreed with ORR. Control Period to date spend is lower than the regulatory baseline mainly due to lower reactive maintenance spend so far in CP6. Cost is higher than the previous year when delays in awarding framework contracts resulted in lower activity undertaken by external specialists.

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. This year, spend is in line with the regulatory baseline. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail’s Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances arising from these interventions are treated as neutral when calculating Network Rail’s financial performance. This is in line with the treatment set out in Network Rail’s financial outperformance guidelines which have been agreed with ORR. Control Period to date spend is slightly lower than the regulatory baseline and the prior year, reflecting the aforementioned inherent volatility.

(6) Electrical power and fixed plant – costs this year are lower than regulatory baseline, continuing the trend of previous years with some additional efficiencies being achieved, including reduced headcount and overtime control.

(7) Other network operations – costs this year are lower than regulatory baseline, continuing the trend of previous years. Savings this year include the transfer of responsibility for drainage assets from Other maintenance in the original CP6 regulatory baseline to Track which has partly been offset by a devolution of training from Regionally-managed Support Human Resource to the local maintenance organisation to improve accountability.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western - continued

In £m cash prices unless stated

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances are predominantly due to Route services – other variances which are explained below.

(2) Route services – other – costs are noticeably higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the business. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, the significant increase in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs are higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. The current year variance is also driving the variance in the control period to date and the variance to the prior year can also be explained by the under-recovery this year.

Wales & Western
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed Support costs					
Human resources	3	5	2	2	8
Finance	3	3	-	-	4
Accommodation	12	9	(3)	(3)	12
Utilities	15	12	(3)	(3)	13
Other	13	7	(6)	(6)	11
	46	**36**	**(10)**	**(10)**	**48**
Centrally-managed Support costs					
Finance & Legal	6	10	4	4	9
Communications	2	3	1	1	3
Human Resources	3	5	2	2	6
System Operator	8	10	2	2	8
Property	1	3	2	2	1
Telecoms	10	7	(3)	(3)	11
Network Services	-	-	-	-	-
Safety Technical and Engineering	6	7	1	4	8
RS - IT and Business Services	19	19	-	-	21
RS - Asset Information	3	5	2	(27)	3
RS - Directorate	-	5	5	5	7
Other corporate functions	-	1	1	6	3
Insurance	(3)	8	11	11	6
OPEX/CAPEX Adjustment	34	12	(22)	-	24
Group costs	19	8	(11)	1	2
	108	**103**	**(5)**	**8**	**112**
Total support costs	**154**	**139**	**(15)**	**(2)**	**160**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	21	19	(2)	(1)
Finance	14	12	(2)	(2)
Accommodation	47	37	(10)	(10)
Utilities	52	49	(3)	(4)
Other	55	46	(9)	(9)
	189	**163**	**(26)**	**(26)**
Centrally-managed Support costs				
Finance & Legal	26	35	9	9
Communications	10	12	2	1
Human Resources	15	17	2	2
System Operator	27	36	9	9
Property	(12)	5	17	17
Telecoms	37	35	(2)	(3)
Network Services	6	8	2	2
Safety Technical and Engineering	24	28	4	6
RS - IT and Business Services	76	75	(1)	(1)
RS - Asset Information	10	19	9	(21)
RS - Directorate	14	15	1	2
Other corporate functions	9	11	2	2
Insurance	10	28	18	17
OPEX/CAPEX Adjustment	102	51	(51)	-
Group costs	12	41	29	27
	366	**416**	**50**	**69**
Total support costs	**555**	**579**	**24**	**43**

Statement 3.3: Analysis of support costs, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to additional costs in both Regionally-managed and Centrally-managed activities as set out below. Costs in the control period to date are lower than the regulatory baseline as greater Regionally-managed expenses have been more than offset by savings in Centrally-managed categories.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline, primarily due to the implementation of the PPF re-organisation programme. Higher costs for the control period to date also include costs associated with managing the impact of Covid-19 and additional graffiti removal work.

(2) Human resources – costs in the current year are lower than the baseline expectation including the benefit of devolving training decisions into Operations and Maintenance cost centres. Costs in the control period to date remain slightly higher than the regulatory baseline, reflecting Network Rail’s continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative. Costs are lower than the previous year reflecting the devolution of accountability into Operations and Maintenance cost centres.

(3) Accommodation – once more costs are higher than the baseline expectation this year. The control period to date position also includes required expenditure on Covid-19 compliance at NR sites.

(4) Utilities – costs are higher than the baseline and the prior year comparative reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty.

(5) Other – costs were higher than the regulatory baseline this year including recognition of workforce reform costs which are expected to reverse in future years. In addition, implementing new PPF organisational design have led to additional resources in the Region in excess of the amount included in the original regulatory baseline. Costs in the control period to date also include additional expenses to mitigate Covid-19 impact in the Region and graffiti clearance funds.

Statement 3.3: Analysis of support costs, Wales & Western - continued

In £m cash prices unless stated

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher workforce reform implementation costs have been partially offset by savings arising from workforce reform and from reduced insurance expenses. Costs for the control period to date are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex.

(2) Finance & legal – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(3) Human Resources – costs this year and for the control period to date are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Costs are lower than the previous year, reflecting lower performance-related pay and headcount reductions from reorganisations.

(4) System Operator – costs are lower than the regulatory baseline, continuing the trend of the opening years of the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings in the control period to date also included reduced staff travel and accommodation costs during the pandemic.

(5) Property – costs are slightly lower than the regulatory baseline this year and lower for the control period to date. Although extra costs have been incurred at corporate offices this year, these have been offset by the favourable settlement of a long-running commercial dispute in the 2019/20. Net costs are broadly in line with the previous year. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.

(6) Telecoms – costs are higher than the regulatory target this year but broadly in line for the control period to date as opex projects have been delivered in a different profile compared to the original plan.

(7) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

Statement 3.3: Analysis of support costs, Wales & Western – continued

In £m cash prices unless stated

(8) Technical Authority – costs this year includes support offered to railways in Ukraine as directed by government. These costs are excluded from the assessment of financial performance. Costs are lower than the control period to date regulatory baseline due to further efficiencies that were achieved by this function, including headcount restraint, pay freezes, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Despite the aforementioned support offered to Ukraine, costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(9) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported in the control period to date is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(10) Route Services – Directorate – costs are lower than the regulatory baseline this year due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes. The savings this year have helped reduce some of the overspends in earlier years of the control period that arose mainly due to Covid-19 related costs, commercial disputes and legal fees being incurred. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. Costs were lower than the previous year. These savings included the recognition of savings from workforce reform programmes and the exceptionally high levels of inflation applied to the prior year comparative in line with the guidance set out in ORR's Regulatory Accounting Guidelines.

(11) Other Corporate Functions – costs are broadly in line with regulatory expectation this year. Financial Outperformance reported this year includes recognition of prior year savings through the Putting Passenger First reorganisation costs. Costs for the control period to date reflect savings made from this area (albeit with extra redundancy costs included in the Group line this control period) partly offset by extra costs to fund the activities of the Great British Railway Transition Team up to 2021/22. Costs are lower than the previous year which included activity on the aforementioned Great British Railway Transition Team which is now separately funded from 2022/23 by DfT and so is outside of the scope of the Regulatory Financial Statements.

(12) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits earlier in the control period, which contribute to the favourable control period to date position. Costs are lower than the previous year due to variability in the benefits arising from actuarial reassessments and from fewer major insurable incidents occurring on the network this year.

Statement 3.3: Analysis of support costs, Wales & Western – continued

In £m cash prices unless stated

(13) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline and the previous year. The year-on-year increases are largely due to the profiling of individual projects and investment programmes.

(14) Group – costs are higher than the regulatory baseline this year. As noted in the previous year Regulatory Financial Statements, some workforce reform savings were recognised in this category last year, these benefits have now been transferred to the rest of the business resulting in the recognition of an offsetting cost this year in Group. In addition, costs associated with modernisation programmes have been recognised in Group this year. Costs are lower than the regulatory baselines for the control period to date mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are higher than the previous year when a credit was recognised form the aforementioned workforce reform savings which have now been distributed to the other parts of the business.

Wales & Western
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	45	56	11	-	44
Business rates	27	37	10	-	29
British transport police costs	12	11	(1)	(1)	12
	84	**104**	**20**	**(1)**	**85**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	6	5	(1)	-	6
RDG membership costs	-	-	-	-	-
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	1	1	-	-
	8	**8**	**-**	**-**	**8**
Total traction electricity, industry costs and rates	**92**	**112**	**20**	**(1)**	**93**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	85	109	24	-
Business rates	53	63	10	-
British transport police costs	24	23	(1)	(1)
	162	**195**	**33**	**(1)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	82	103	21	1
Business rates	55	51	(4)	-
British transport police costs	20	20	-	1
ORR licence fee and railway safety levy	21	20	(1)	-
RDG membership costs	-	-	-	-
RSSB costs	8	9	1	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	186	**203**	**17**	**2**
Total traction electricity, industry costs and rates	**348**	**398**	**50**	**1**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year and in the control period to date are lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. Despite widely-publicised increases in short term market prices this year, the impact on most train operators has been limited. This is because many of them had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. At the time of the determination the Valuation Agency Office used to increase business rates every five years, with the next uplift due from 1 April 2022. However, due to Covid, the Valuation Agency Office deferred their exercise. New uplifted rates now commence 1 April 2023. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period to date.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Wales & Western

In £m cash prices unless stated

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	126	32	(94)	(97)	40
Access charge supplement Income	(28)	(28)	-	-	(30)
Net (income)/cost	**98**	**4**	**(94)**	**(97)**	**10**
Schedule 8					
Performance element income	58	-	(58)	(58)	(17)
Performance element costs	-	17	17	17	13
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**58**	**17**	**(41)**	**(41)**	**(4)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	6	6	6	(2)
Access charge supplement Income	(8)	(8)	-	-	(8)
Net (income)/cost	**(8)**	**(2)**	**6**	**6**	**(10)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	3	1	(2)	(2)	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**3**	**1**	**(2)**	**(2)**	**1**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	126	38	(88)	(91)	38
Access charge supplement Income	(36)	(36)	-	-	(38)
Net (income)/cost	**90**	**2**	**(88)**	**(91)**	**-**
Schedule 8					
Performance element income	58	-	(58)	(58)	(17)
Performance element costs	3	18	15	15	14
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**61**	**18**	**(43)**	**(43)**	**(3)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	226	118	(108)	(123)
Access charge supplement Income	(105)	(105)	-	-
Net (income)/cost	**121**	**13**	**(108)**	**(123)**
Schedule 8				
Performance element income	(29)	-	29	29
Performance element costs	11	34	23	22
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(18)**	**34**	**52**	**51**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1	23	22	23
Access charge supplement Income	(26)	(26)	-	-
Net (income)/cost	**(25)**	**(3)**	**22**	**23**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	2	4	2	2
Access charge supplement Income	-	-	-	-
Net (income)/cost	**2**	**4**	**2**	**2**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	227	141	(86)	(100)
Access charge supplement Income	(131)	(131)	-	-
Net (income)/cost	**96**	**10**	**(86)**	**(100)**
Schedule 8				
Performance element income	(29)	-	29	29
Performance element costs	13	38	25	24
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(16)**	**38**	**54**	**53**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Wales & Western

In £m cash prices unless stated

Notes:

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

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

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

Comments:

(1) Overall Schedule 4 costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, and the increase in costs compared to the previous year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The outperformance in the control period to date is due to the impact Covid-19, resulting in fewer passengers and fewer services causing record levels of punctuality during the pandemic and its wake. There is an outflow this year compared to an inflow in the previous year as passengers have returned to the network. Whilst this is good news, it has adversely impacted Schedule 8 costs. This year has also been impacted by train operator staffing issues, resulting in service reductions. Whilst this has helped with timetable resilience, it has also meant overcrowding on many services, which has increased station dwell time. Prolonged warm weather over the summer, including the hottest day on record in the UK, also impacted performance, leading to temporary speed restrictions put in place to maintain safety along with the impact heat had on disrupting the railway assets.

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual, it is expected to be broadly in line with the CP6 Delivery Plan target. Performance element costs are notably higher than the regulatory baseline this year, mainly due to the impact of industrial action. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. This is also behind the higher costs in the control period to date, augmenting some the overspends reported earlier in the control period.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Wales & Western – continued

In £m cash prices unless stated

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance remains generally better than pre-Covid baselines, performance this year did not meet targets, with industrial action, heat in the summer months and a higher than expected number of temporary speed restrictions and asset failure all contributing to delays. The control period to date remains favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. The net cost reported this year is in contrast to the net income recognised in the period year comparative when the impact of Covid continued to impact passenger and train service numbers.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (assumptions inherent in the CP6 Business Plan) and those used to uplift the payments in the track access agreements (which are done using the previous year's November CPI). The Access charge supplement income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. There is an overall Schedule 4 net inflow greater than the regulatory baseline as a result of the aforementioned fewer severe weather events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs are higher than the prior year due to the favourable settlement of a commercial claim recognised in 2021/22.

(3) Schedule 8 – this year's cost is similar to the regulatory baseline. Schedule 8 costs are lower than the regulatory baseline for the control period to date. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to a reduction in the overall costs attributable to the region.

Wales & Western
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2022-23	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2021-22 Actual
Regionally-managed					
Track					
PL Replace Full	68	38	(30)	-	48
PL Replace Partial	35	17	(18)	-	37
PL High Output	45	35	(10)	-	46
PL Refurbishment	5	13	8	-	6
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	34	27	(7)	-	21
Switches & Crossing - Other	13	3	(10)	-	7
Off Track	16	39	23	-	14
Track Other	8	(1)	(9)	-	8
	224	**171**	**(53)**	**-**	**187**
Signalling					
Signalling Full	63	48	(15)	-	20
Signalling Partial	17	0	(17)	-	4
Signalling Refurb	28	90	62	-	55
Level crossings	23	41	18	-	11
Minor works	14	22	8	-	13
Other	0	0	0	-	-
	145	**201**	**56**	**(16)**	**103**
Civils					
Underbridges	49	34	(15)	-	38
Overbridges	22	10	(12)	-	17
Major structures	6	5	(1)	-	12
Tunnels	4	6	2	-	3
Minor works	22	12	(10)	-	21
Other	11	10	(1)	-	8
	114	**77**	**(37)**	**(20)**	**99**
Earthworks					
Earthworks - Embankments	13	11	(2)	-	18
Earthworks - Soil Cuttings	15	17	2	-	19
Earthworks - Rock Cuttings	14	4	(10)	-	11
Earthworks - Other	-	4	4	-	-
	42	**36**	**(6)**	**(3)**	**48**
Buildings					
Managed stations	15	19	4	-	20
Franchised stations	19	15	(4)	-	22
Light maint depots	4	1	(3)	-	1
Depot plant	2	4	2	-	-
Lineside buildings	2	3	1	-	2
MDU buildings	14	6	(8)	-	8
Other	-	-	-	-	-
	56	**48**	**(8)**	**(2)**	**53**
Electrical power and fixed plant					
AC distribution	2	-	(2)	-	3
Overhead Line	2	3	1	-	2
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	14	19	5	-	9
Other	6	1	(5)	-	3
Fixed plant	7	5	(2)	-	9
	31	**28**	**(3)**	**(3)**	**26**
Drainage					
Drainage (Track)	9	4	(5)	-	11
Drainage (Earthworks)	4	3	(1)	-	2
Drainage (Resilience)	-	-	-	-	-
	13	**7**	**(6)**	**-**	**13**
Property					
Property	6	7	1	-	6
	6	**7**	**1**	**-**	**6**
Total Regionally-managed renewals expenditure	**631**	**575**	**(56)**	**(44)**	**535**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	4	-	(4)	-	-
	4	**-**	**(4)**	**(4)**	**-**
Telecoms					
Operational communications	3	6	3	-	1
Network	3	4	1	-	2
SISS	6	8	2	-	1
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	9	9	-	-	10
	22	**27**	**5**	**(2)**	**15**
Wheeled plant and machinery					
High output	3	4	1	-	9
Incident response	-	-	-	-	1
Infrastructure monitoring	-	3	3	-	-
Intervention	1	5	4	-	2
Materials delivery	2	4	2	-	2
On track plant	-	1	1	-	-
Seasonal	-	-	-	-	-
Other	3	-	(3)	-	4
	9	**17**	**8**	**-**	**18**
Route Services					
Business Improvement	7	-	(7)	-	9
IT Renewals	4	12	8	-	4
Asset Information	1	-	(1)	-	1
Other	1	2	1	-	3
	13	**14**	**1**	**-**	**17**
STE Renewals					
Intelligent infrastructure	9	8	(1)	-	13
Faster Isolations	3	5	2	-	11
Centrally Managed Signalling Costs	1	2	1	-	1
Research and development	7	8	1	-	6
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	1	1	-	-	3
Small plant	1	1	-	-	1
Other	18	1	(17)	-	17
	40	**28**	**(12)**	**-**	**52**
Property					
Property	-	7	7	-	-
	-	**7**	**7**	**-**	**-**
Other renewals					
ETCS	-	6	6	-	-
Digital Railway	3	3	-	-	2
Civils & Drainage - Insurance Fund	1	5	4	6	-
Buildings - Insurance Fund	1	3	2	-	-
OPEX/CAPEX Adjustment	(34)	(12)	22	-	(21)
Phasing overlay	-	(22)	(22)	-	-
System Operator	4	4	-	-	3
Other renewals	10	(1)	(11)	(1)	2
	(15)	**(14)**	**1**	**5**	**(14)**
Total centrally-managed renewals expenditure	**73**	**79**	**6**	**(1)**	**88**
TOTAL RENEWALS EXPENDITURE	**704**	**654**	**(50)**	**(45)**	**623**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	185	136	(49)	-
PL Replace Partial	146	101	(45)	-
PL High Output	147	134	(13)	-
PL Refurbishment	16	42	26	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	113	97	(16)	-
Switches & Crossing - Other	32	13	(19)	-
Off Track	45	68	23	-
Track Other	28	(1)	(29)	-
	712	**590**	**(122)**	**(60)**
Signalling				
Signalling Full	110	126	16	-
Signalling Partial	33	26	(7)	-
Signalling Refurb	154	277	123	-
Level crossings	54	96	42	-
Minor works	64	77	13	-
Other	-	-	-	-
	415	**602**	**187**	**(31)**
Civils				
Underbridges	149	138	(11)	-
Overbridges	51	40	(11)	-
Major structures	24	24	-	-
Tunnels	16	29	13	-
Minor works	62	38	(24)	-
Other	34	37	3	-
	336	**306**	**(30)**	**(23)**
Earthworks				
Earthworks - Embankments	68	52	(16)	-
Earthworks - Soil Cuttings	52	58	6	-
Earthworks - Rock Cuttings	44	27	(17)	-
Earthworks - Other	1	12	11	-
	165	**149**	**(16)**	**(2)**
Buildings				
Managed stations	47	70	23	-
Franchised stations	74	73	(1)	-
Light maint depots	8	11	3	-
Depot plant	5	10	5	-
Lineside buildings	8	11	3	-
MDU buildings	29	37	8	-
Other	-	-	-	-
	171	**212**	**41**	**(4)**
Electrical power and fixed plant				
AC distribution	10	7	(3)	-
Overhead Line	12	13	1	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	33	58	25	-
Other	29	4	(25)	-
Fixed plant	39	25	(14)	-
	123	**107**	**(16)**	**(11)**
Drainage				
Drainage (Track)	37	17	(20)	-
Drainage (Earthworks)	8	13	5	-
Drainage (Resilience)	1	-	(1)	-
	46	**30**	**(16)**	**3**
Property				
Property	21	20	(1)	-
	21	**20**	**(1)**	**-**
Total Regionally-managed renewals expenditure	**1,989**	**2,016**	**27**	**(128)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	4	-	(4)	-
	4	**-**	**(4)**	**(4)**
Telecoms				
Operational communications	5	12	7	-
Network	7	7	-	-
SISS	10	12	2	-
Projects and other	4	1	(3)	-
Non-route capital expenditure	40	37	(3)	-
	66	**69**	**3**	**(4)**
Wheeled plant and machinery				
High output	19	20	1	-
Incident response	1	-	(1)	-
Infrastructure monitoring	1	8	7	-
Intervention	6	17	11	-
Materials delivery	6	22	16	-
On track plant	-	2	2	-
Seasonal	2	-	(2)	-
Other	9	2	(7)	-
	44	**71**	**27**	**-**
Route Services				
Business Improvement	43	18	(25)	-
IT Renewals	20	39	19	-
Asset Information	4	4	-	-
Other	4	3	(1)	-
	71	**64**	**(7)**	**-**
STE Renewals				
Intelligent infrastructure	33	25	(8)	-
Faster Isolations	33	20	(13)	-
Centrally Managed Signalling Costs	3	6	3	-
Research and development	23	24	1	-
Integrated Management System (Incl. BCR)	-	6	6	-
Other National SCADA Programmes	9	10	1	-
Small plant	4	4	-	-
Other	46	7	(39)	-
	151	**102**	**(49)**	**-**
Property				
Property	11	12	1	-
	11	**12**	**1**	**-**
Other renewals				
ETCS	5	33	28	(1)
Digital Railway	6	(2)	(8)	-
Civils & Drainage - Insurance Fund	3	19	16	15
Buildings - Insurance Fund	1	11	10	-
OPEX/CAPEX Adjustment	(89)	(51)	38	-
Phasing overlay	-	(72)	(72)	-
System Operator	10	10	-	-
Other renewals	10	1	(9)	10
	(54)	**(51)**	**3**	**24**
Total centrally-managed renewals expenditure	**293**	**267**	**(26)**	**16**
TOTAL RENEWALS EXPENDITURE	**2,282**	**2,283**	**1**	**(112)**

Statement 3.6: Analysis of renewals expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is higher than the regulatory baseline this year and is now broadly in line with for the control period to date. Investment is higher than the previous year including extra work on the Track and Signalling portfolio.

Regionally-managed renewals

(1) Total Regionally-managed renewals were higher than the regulatory assumption but remains slightly lower in the control period to date. This year, extra Track and Civils works has more than offset lower Signalling activity. Spend this year is higher than the previous year including a step up in Track and Signalling investment.

(2) Track – overall, costs in the year were higher than the regulatory baseline, continuing the trend of the previous years of the control period as the region has utilised risk funds available to investment more in the assets. Financial underperformance has been recognised this control period. This is largely a result of difficulties in High Output delivery. The main causes for this include difficulty with access received for a re-laying High Output campaign causing a subsequent reduction in scope whilst still incurring fixed costs and a change in workbank in Western's Ballast Cleaning campaign from larger areas to smaller sites which have higher cost per volume but means more sites can be targeted, allowing better asset management outcomes. Ballast Cleaning also suffered from plant failure and a safety incident that resulted in front line workers standing down and a subsequent loss of volumes. Covid-19 also led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs in 2020/21. At the start of the pandemic operators were stranded in eastern Europe due to travelling restrictions which also disrupted productivity. Industrial action and the impact of the Queens funeral also caused higher project costs in the current year. In addition, financial underperformance was recognised from difficulties in introducing a new technological solution. Whilst future efficiencies are expected in the medium term, implementation issues resulted in higher costs this year. Financial outperformance reported this year includes an adjustment for additional Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance and an adjustment for the control period to date has been recognised this year. Spend is higher than the previous year due to an increase in the level of volumes delivered, including almost 25% more switches & crossing volumes.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(3) Signalling – although there was a step up in activity this year compared to 2021/22, spend was lower than the regulatory expectation, continuing the trend of earlier years of the control period. Delivery in the control period has been lower than the ambitious targets in the regulatory baseline as funding has been reprioritised, alternative solutions sought and the workbank rephased to reflect resource and access constraints. In addition, funding shortages at the end of CP5 resulted in lower levels of design works meaning overall programmes have been pushed back into later years. Financial underperformance has been recognised this control period. This includes persistent contractor delivery issues on ETCS programme leading to delays and increased contractor support required, increased power scope in the Vamos safety intervention project has resulted in a descoping of projects to keep project costs within the funding available. Port Talbot project has been prolonged as a result of a major commissioning missed in March 2023, principally due to contractor under delivery earlier in the project augmented by a number of costly interventions to try to return project to timetable and achieve commissioning date. The project also suffered from higher contractor prices earlier in the control period as did Tondu project. Delays to the Bristol Area Resignalling programmes also increased costs on that project. There have been some offsetting efficiencies such as implementation of modular signalling technology in Devon and Cornwall. Further to this, the use of innovative technology in MSL crossings has allowed all the benefits of the usual implementation to be achieved without incurring all the costs. The step up in activity this year included a significant increase in the Port Talbot project as well as the Devon and Cornwall resignalling programme which have been partly offset by reduced works at Paddington as those projects near completion.

(4) Civils – spend is higher than the regulatory baseline this year which is the main driver of the higher costs in the control period to date. This has largely been caused by higher like-for-like projects costs. This financial underperformance includes access difficulties across a number of projects such as road closures for bridge work only being allowed at night, shorter possession windows necessitating multiple visits and industrial action resulting in project prolongation. Working collaboratively with stakeholders and the public has also influenced how some projects can be delivered, with road access for motorists a consideration on the Paignton Road overbridge renewal. Deferrals of projects to CP7 due to funding constraints have also lead to prolongation or sunk costs, whilst assets being in worse condition than surveys suggested have also added to project expenses, such as at London Steet. Prolongation costs have also emerged due to environmental factors such as the presence of nesting peregrine falcons and badger presence at different sites. Contractor financial failure resulting in administration has also resulted in many due diligence checks, time extensions and project postponements. Financial underperformance has also been impacted by higher tender prices and materials costs. Investment is higher this year compared to 2021/22 which includes extra work on London Street overbridge project, river Neath swing bridge and Windsor viaduct as Wales & Western step up asset improvement works in this asset category.

(5) Earthworks – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. The higher investment reflects increased investment in environmental resilience works to offset increased issues caused by climate change as well as Wales & Western's response to the Stonehaven tragedy by increasing efforts in this area. Expenditure is lower than the previous year. This is mainly due to the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(6) Buildings – investment this year is higher than the regulatory baseline which has offset some of the underspend experienced in earlier years of the control period. Lower investment in the control period to date is most evident within the Managed stations category with most of the shortfall planned to be caught up in the final year of the control period. Some minor financial underperformance has been reported in the control period due to asset conditions being worse than anticipated at Chester, Holyhead, Cambourn and Penance which drove additional spending on materials and design as well as Bristol Temple Meads where the level of steel defects were worse than expected.

(7) Electrical power and fixed plant – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. This has largely been caused by higher like-for-like projects costs. This financial underperformance includes requirement to retender elements of the SCADA programme due to poor contractor performance resulting in project prolongation and higher contractor costs, additional contractor costs on signalling cable projects owing to design delays and difficulties acquiring the required access, costs from cancelled and deferred projects due to funding constraints meaning reprioritisation of activity and higher contractor tender prices.

(8) Drainage – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. The higher investment reflects increased investment in environmental resilience works to offset increased issues caused by climate change as well as Wales & Western's response to the Stonehaven tragedy by increasing efforts in this area.

(9) Property – spend is lower than the regulatory baseline this year, but broadly similar to the control period to date reflecting the variable nature of property investment.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, despite the impact of the Phasing overlay in the regulatory baseline reducing the baseline. The lower spend included continued lower investment in plant & machinery, ETCS and property being partly offset by higher spend on STE programmes. In addition, a higher proportion of activity was classified as opex in nature compared to the regulatory assumption. Most of the Centrally-managed renewals is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year, primarily due to higher spend being transferred to OPEX this year as well as the comparatively high inflationary uplift that the Regulatory Accounting Guidelines require to be applied to the 2021/22 reported figures, whereas actual costs have not risen as quickly.

(2) Track – costs were recognised this year arising from the under-recovery of cost from central teams. This is due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs in the control period to date also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(3) Telecoms – investment is lower than the regulatory baseline in the current year which is the main driver of the lower spend in the control period to date. This is mainly due to slippage on operational communications projects. Regional decisions have been made to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Financial underperformance has been reported this year. This includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation. There is financial underperformance in the control period to date which arises from the aforementioned issues in the current year but also from earlier years of the control period including: commercials pressures and design issues from higher tender prices, and original design and implementation plans for project Railnet IP not providing a sustainable solution and thus a new contractor was appointed.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and the control period to date. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

a. High output – spend is noticeably lower than the prior year comparative which included significant investment in renewing the high output ballast cleaner system fleet.

b. Infrastructure monitoring – spend control period to date is lower than the regulatory baseline, mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and the control period to date. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment is lower than the regulatory baseline assumption for the control period to date primarily due to the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – spend is lower than the regulatory baseline for the control period to date. Investment in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

f. Other – the regulatory baselines included a portfolio level overlay reduction to reflect an expectation that the other Wheeled plant & machinery categories would spend less than the gross funding available. Consequently, there has been higher expenditure in this category than the regulatory baseline this year and in the control period to date which partly offsets the underspend reported in the other Wheeled plant & machinery categories. The control period to date investment is higher than the regulatory baseline expected.

(5) Route Services – expenditure this year is lower than the regulatory baseline which negates some of the higher spend experienced earlier in the control period. The phasing of activity this control period has been different to the regulatory baseline with more work delivered earlier in the control period, including significant investment to major programmes including a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. Spend this year is lower than last year. This is partly due to reduced investment in the aforementioned projects and also because the 2021/22 figure being uplifted by the November 2021 CPI in line with the Regulatory Accounting Guidelines which was exceptionally high. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and the control period to date, mainly due to continued investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline in the control period to date. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are lower than the regulatory baseline this year, offsetting additional expenditure in earlier years of the control period. The funding for this activity has been utilised in a different profile compared to the regulatory expectation. Costs for the control period to date has been higher as additional programmes have been identified to improve the safety of the network and efficiency of possessions. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Integrated Management System – whilst there is a variance to the regulatory baseline this year, the control period to date is investment is in line with the regulatory expectation. Expenditure this year was lower than the previous year as more expenditure this year qualified as opex and so was reported in statement 3.2 Maintenance.

d. Other – investment is significantly higher than the regulatory baseline in the year and control period to date. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund to invest heavily in workforce safety schemes. This was not included in the regulatory baseline.

(7) Property – expenditure is significantly lower than the regulatory baseline this year which catches up most of the underspend in earlier years of the control period. The funding in the regulatory baselines has been utilised in a different profile compared to the regulatory expectation this control period

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(8) Other – investment is lower than the regulatory baseline in the current year and in the control period to date. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline in the current year and the control period to date as the programme has been revaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. An allowance was made for expected rephasing of activity across in the control period in the Digital Railway category so the control period to date underspend is offset by the higher costs in that area.

b. Digital Railway – whilst costs are broadly in line with the regulatory baseline this year, they are higher in the control period to date. This is because the regulatory baseline included a adjustment to rephase ETCS activity. So the extra costs reported against Digital Railway are partly offset by lower ETCS costs in the control period to date. The variance is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in that area compared to the regulatory baseline's expectation.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail are managing this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period to date has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was higher than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period this nets to £nil.

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. Last year also includes the benefit from workforce reform savings that were recognised centrally which have now been recognised in the Regions this year, reversing out the central benefit recognised in 2021/22. Expenditure in the control period to date is higher than the regulatory baseline mainly due to the aforementioned new electric charging points created this control period. Costs are lower than the previous year reflecting the timing difference noted above for workforce reform savings.

Wales & Western
Statement 3.7: Analysis of enhancements expenditure

	2022-23			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Great Western Electrification	10	(17)	(2)	252	251	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Oxford Corridor Capacity Phase 2	28	22	-	52	51	-
GWEP Distribution Network Operators clearance work	(12)	-	-	(6)	(7)	-
Reading Independent Feeder (Power Supply)	19	13	1	48	47	(3)
Bristol East Junction	3	(26)	3	92	93	26
Kings Lynn to Cambridge 8 Car	-	-	-	-	-	-
South West Rail Resilience Programme	49	40	(7)	134	132	(10)
Access for All	9	10	-	16	22	-
Western Rail Access to Heathrow	-	-	(1)	15	16	-
Crossrail	(15)	21	(11)	101	115	(86)
Dr Days to Filton Abbey Wood Capacity	(1)	-	-	9	10	-
Portfolio Contingency (including T-12)	-	-	-	1	1	2
Thames Valley EMU Capability	-	-	-	10	11	-
IEP Western Capability	-	1	-	17	20	-
West of England Plat Length	-	-	-	4	4	-
Access to Assets	2	(1)	-	11	13	-
Restoring Your Railway	8	13	-	46	49	-
GWML W10-W12 Gauge Enhancement	-	1	-	11	11	-
Crumlin River Bridge	-	1	-	4	5	1
W009 West of England DMU Capability	-	(2)	-	6	5	-
Tactile Paving Installation	3	3	-	3	3	-
New Stations Fund	1	-	-	1	5	-
Other	30	2	(1)	35	13	(1)
Total	**134**	**81**	**(18)**	**878**	**887**	**(126)**
Other Capital Expenditure	**27**	**-**	**-**	**153**	**-**	**-**
Other third party funded schemes						
HS2	24	-	-	131	-	-
Other third Party	48	-	-	118	-	-
Total	72	-	-	249	-	-
Total enhancements	**233**	**81**	**(18)**	**1,280**	**887**	**(126)**
Total enhancements less Other third party funded schemes	**161**	**81**	**(18)**	**1,031**	**887**	**(126)**

Statement 3.7: Analysis of enhancement expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2021 (SR21) and Spending Review 2022 (SR22) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the Wales & Western's core funder (DfT).

(3) In line with the Regulatory Accounting Guidelines, there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Wale & Western's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £161m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£233m) less the PAYGO schemes funded by third parties (£72m).

(2) Enhancement expenditure this year in CP6 cumulatively is greater than the latest regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised so far this control period, with large contributions from Great Western Electrification and Crossrail. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT)).

Statement 3.7: Analysis of enhancement expenditure, Wales & Western – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the control period to date position broadly in line with the regulatory baseline. The in year variance reflects agreed changes to the regulatory baseline by DfT through the SR22 baseline process and subsequent change controls approved by DfT enhancement investment board who have oversight over the Network Rail enhancement programme in Wales & Western. Some notable variances at programme level include:

a. Great Western Electrification – this is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than baseline. In year and cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.

b. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Progress has been greater than anticipated this year with demolition works starting in January 2023 near Botley Road bridge, enabling upgrades to Oxford station. This has brought the control period to date position broadly in line with the funding baseline.

c. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Project has accelerated delivery this year, aligning cumulative position to baseline.

d. Bristol East Junction – this project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the current year baseline.

e. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Expenditure in the year was higher than the baseline brining the control period to date spend in line with funding. Financial underperformance is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation work.

f. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. Control period to date remains lower than the funding baseline due to delays in procurement and design works. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.

Statement 3.7: Analysis of enhancement expenditure, Wales & Western – continued

In £m cash prices unless stated

g. Crossrail – this project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east, with services now starting to run. The programme has recognised adverse financial performance as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

h. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements. The control period to date also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(5) Third party funded schemes –a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm’s length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year includes Ebbw Vale Integration and Crossrail connectivity works.

Wales & Western
Statement 3.8: Analysis of renewals unit costs
Cash prices

2022-23		Unit	FY22 AFC	FY22 AFV	FY22 Unit Costs	FY21 AFC	FY21 AFV	FY21 Unit Costs
Track	PL Replace Full	km	64	36	1,778	52	19	2,737
	PL Replace Partial	km	56	96	583	45	89	506
	PL High Output	km	64	36	1,778	49	32	1,531
	PL Refurbishment	km	9	79	114	8	74	108
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	18	39	462	11	34	324
	Switches & Crossing - Other	point ends	8	79	101	20	103	194
	Off Track	km/No.	21	175	120	19	223	85
	Track Other		-	-	-	-	-	-
	Total		**240**			**204**		
Signalling	Signalling Full	SEU	-	-	-	-	-	-
	Signalling Partial	SEU	5	8	625	-	-	-
	Signalling Refurb	SEU	7	16	438	101	272	371
	Level crossings	No.	22	92	239	23	61	377
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**34**			**124**		
Civils	Underbridges	m2	74	22,454	3	80	21,357	4
	Overbridges (incl BG3)	m2	19	3,655	5	8	4,147	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	6	5,556	1	6	7,035	1
	Culverts	m2	2	596	3	3	845	4
	Footbridges	m2	-	35	-	-	-	-
	Coastal & Estuarial Defences	m2	8	2,487	3	3	685	4
	Retaining Walls	m2	7	2,230	3	6	3,018	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**116**			**106**		
Earthworks	Earthworks - Embankments	No.	12	823	15	39	946	41
	Earthworks - Soil Cuttings	No.	26	1,039	25	27	1,014	27
	Earthworks - Rock Cuttings	No.	27	289	93	22	272	81
	Earthworks - Other	No.	-	23	-	-	49	-
	Drainage - Earthworks	m	7	33,170	0	7	21,251	0
	Drainage - Other	m	14	37,507	0	13	51,887	0
	TOTAL		**86**			**108**		
Buildings	Buildings (MS)	m2	-	-	-	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	1	240	4	-	-	-
	Other (MS)	m2	-	-	-	3	11	273
	Buildings (FS)	m2	-	212	-	1	1,915	1
	Platforms (FS)	m2	-	2,139	-	7	1,041	7
	Canopies (FS)	m2	1	982	1	-	-	-
	Train sheds (FS)	m2	3	6,011	0	-	-	-
	Footbridges (FS)	m2	-	65	-	6	556	11
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	18	88,932	0	19	114,053	0
	Light Maintenance Depots	m2	-	-	-	-	-	-
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	3	1,729	2	4	6,803	1
	MDU Buildings	m2	16	14,838	1	1	9,898	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**42**			**41**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	1	37	27	2	42	48
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	6	167	-	7	-
	Signalling Power Cables	km	13	117	111	7	66	106
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**15**			**9**		
Telecoms	Customer Information Systems	No.	1	41	24	3	199	15
	Public Address	No.	1	45	22	-	44	-
	CCTV	No.	8	1,054	8	-	57	-
	Other Surveillance	No.	-	-	-	-	9	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		2	86	23	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**12**			**3**		

Statement 3.8: Analysis of renewals unit costs, Wales & Western

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting Guidelines, this statement only records the unit costs for renewals programmes that have volumes reported against them in 2022/23 (or 2021/22 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2021/22 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2022/23, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track - PL Replace Full unit cost has decreased to levels recorded in 2020/21 after a significant increase in 2021/22 due to workbank mix and job complexity. PL Replace Partial and PL High Output unit costs have increased in 2022/23 which can be attributed to workbank mix, job complexity and inflationary pressures in the supply chain. Wales and Western missed their PL Track target by 3% and attribute it to lost access through industrial action which caused work to be replanned. Switches and Crossing Replace unit rate has increased due to job complexity. This can be explained by the S&C renewals CP6 workbank which has been focused on higher speed sections of the network that requires faster turnouts and longer S&C which are more expensive.

(3) Signalling – Signalling Refurb unit rate increased and was driven by the Newport to Shrewsbury life extension. The 2021/22 unit rate was significantly lower than previous years due to a major project at Paddington which delivered a large proportion of volumes. The 2022/23 unit rate is an increase on last year's value, but is still significantly lower than the unit rate seen in 2020/21. However, any analysis is weakened by the fact there was only one project meaning the sample size is too small to establish meaningful data trends. The Level Crossings unit rate has decreased. Reasons for this include the Western Route Passive Crossing Renewals programme which delivered a significant proportion of total volumes at a significantly lower unit rate than other types of level crossing work.

Statement 3.8: Analysis of renewals unit costs, Wales & Western – continued

In £m cash prices unless stated

(4) Civils - There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(5) Earthworks & Drainage – Earthworks Embankments unit rate has decreased significantly and can be explained by a change in workbank mix with a larger proportion of cheaper maintain work being delivered than renew or refurb. Within Earthworks categories there are three subcategories; maintain, renew and refurb. All three offer different life extension outcomes as well as different cost outcomes with renew being the most expensive and maintain being the cheapest. The Earthworks Rock Cuttings unit rate has increased due to workbank complexity and inflationary pressure related to 3rd party contractors which caused the unit rates to exceed expectations.

(6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(7) Electrical Power and Fixed Plant – Signalling power cables unit rate has increased however, there were only two projects, so the sample size is too trivial to produce meaningful analysis. This increase occurred despite extra volumes being achieved in the Westbury project which was responsible for a large proportion of Signalling Power Cable volumes. 19/20 Totnes and Penzance is the second project and received re-authority with an AFC increase to prevent abortive works. As mentioned previously, material and 3rd party contractor cost pressures have caused unit rates to increase.

(8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year

Wales & Western
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

2022-23

	£m
Opening RAB (2020-21 Actual prices)	**13,824**
Indexation to 2021-22 prices	15,303
RAB additions	
Renewals expenditure	704
Enhancements expenditure	-
Less amortisation	(704)
Property Sales	(5)
Closing RAB	**15,298**

Net debt

	£m
Opening net debt	**10,534**
Income	(1,695)
Expenditure	1,526
Financing Costs - Government borrowing	155
Financing Costs - index linked debt	607
Financing Costs - Other	25
Corporation tax	(6)
Working capital	(21)
Closing net debt	**11,125**

Statement 4: Regulatory financial position, Wales & Western

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Wales & Western part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2021/22 prices and is inflated by the November 2022 CPI (10.7 per cent).

(3) Renewals – renewals added to the RAB was £0.7bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines, disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable Wales & Western and how it has moved this year.

(8) Network Rail's debt attributable to Wales & Western is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2.

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Wales & Western – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses.

(12) Corporation tax – changes in legislation and financial forecasts means that Network Rail are expecting to receive rebates from HMRC for most of the tax payments made earlier in the control period. This means that corporation tax grant income recognised earlier in the control period is now reduced accordingly with the credit recognised in the current year.

(13) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Appendices to the Regulatory financial statements – Reconciliations between Regulatory financial statements and statutory accounts*

*Note: The reconciliations are made to Network Rail Limited's statutory accounts as no consolidated statutory accounts are prepared or published for the Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2023

	£m
RAB valuation at 31 March 2023 (Statement 4)	84,446
Investment properties included in the Regulatory Asset Base and assets held for sale	(208)
Adjustment for cash flow differences the CP6 Business Plan compared to Periodic Review 2018	(1,505)
Assets held for resale	(4)
Other	4
Property, plant and equipment per NRL statutory accounts at 31 March 2023	**82,733**

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2023

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2023 per the regulatory Statements (Statement 1)	2,714	2,089	4,803
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets	2,099		2,099
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	226		226
IFRS16 Leases adjustment	(136)		(136)
Other, including GBR Transition Team costs	48		48
Operating and maintenance expenditure for year ended 31 March 2023 per NRL statutory accounts	**4,951**	**2,089**	**7,040**

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2023

	£m
Regulatory income for year ended 31 March 2023 (Statement 1)	10,911
Differences between regulatory income and statutory turnover	
Performance regime (Schedule 4 & 8)	(917)
Great British Rail Transition Team grant from DfT	52
Income from property sales and other asset divestments	(32)
Turnover per NRL statutory accounts for year ended 31 March 2023	**10,014**

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2023

	£m
Regulatory debt at 31 March 2023 (Statement 4)	58,249
Differences between regulatory debt and statutory net debt	
Impact of IAS32 and IAS39: Fair value hedging and fair value through profit & loss adjustment	402
IFRS 16 Leases adjustment	407
Net debt per NRL statutory accounts at 31 March 2023	**59,058**

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2023

	£m
Regulatory capital expenditure for the year ended 31 March 2023 (Statement 1)	6,057
Differences between regulatory capital expenditure and statutory capital expenditure	
Third party funded capex	435
Investment property schemes	(1)
Capital expenditure per NRL statutory accounts for the year ended 31 March 2023	**6,491**

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2023

	£m
Total financing costs for the year ended 31 March 2023 (Statement 1)	4,135
Differences between regulatory interest expense and statutory interest expense	
Net finance costs relating to defined pension schemes assets and liabilities	60
Investment revenue disclosed separately in statutory accounts	3
Interest expense per NRL statutory accounts for the year ended 31 March 2023	**4,198**