



Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2014

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Directors' Review

Introduction

Huge progress has been made on Britain's railway, but we have to remember that we are engaged in the first stages of a transformation that will take more than a decade to complete. With a century of underinvestment following the initial burst of dynamism and creativity of the Victorian pioneers, we should be under no illusion as the long-term nature of the work in which we are engaged.

Capital investment of £6.9bn was 32 per cent higher than last year and more than any year in the company's history. Part of the investment was funded by an increase of £3.4bn in our debt; however our primary gearing measure of regulatory asset base to regulatory net debt of 65 per cent remains comfortably within the regulatory limit of 75 per cent.

Financial Review of the Year

Summary income and expenditure comparison to the PR08 2013/14

	Actual	PR08	Difference to PR08
Income	6,741	6,735	6
Expenditure			
Controllable opex	1,071	793	(278)
Non-controllable opex	546	468	(78)
Maintenance	952	1,141	189
Schedule 4 & 8	364	145	(219)
Renewals	3,701	2,188	(1,513)
Enhancements	2,962	686	(2,276)
Financing costs	1,428	1,711	283
Corporation tax	(5)	10	15
Rebates	142	-	(142)
Total expenditure	11,161	7,142	(4,019)

Directors' Review continued

In £m 2013/14 prices unless stated otherwise

Revenue

The majority of our income is determined by the ORR in advance of each five-year control period, based on an assessment of the amounts required to cover net expenditure and to finance our investment activities. 62 per cent of our income for the control period is in the form of network grant from the Government. A further 16 per cent comes from fixed charges to operators, leaving 22 per cent coming from variable charges to train operators and from other sources of income, mainly property rents. Our income from operators is reduced by compensation paid to operators under the performance regime. Turnover is set out in more detail in Statement 6.

Property

During 2013/14 property income included within revenue remained constant in real terms. Significant property enhancements that completed during the year to reinforce our strategy of creating "destination stations" at our managed stations included further retail improvements at Waterloo station, with the opening of a Foyles book shop and the launch of 'Waterloo Motion'; at 40 metres long this is Europe's largest LED screen. We completed the Epsom commercial development, which funded a fully refurbished station; this was the first site to be completed by our Solum Regeneration Joint Venture with Kier Property. Including the acquisition of over 100 freight sites, property enhancements spend was £260m (2012/13: £43m).

Net property sales were £41m (2012/13: £40m) for the year. Significant sales included the sale and lease back of Enterprise House in Paddington.

Expenditure

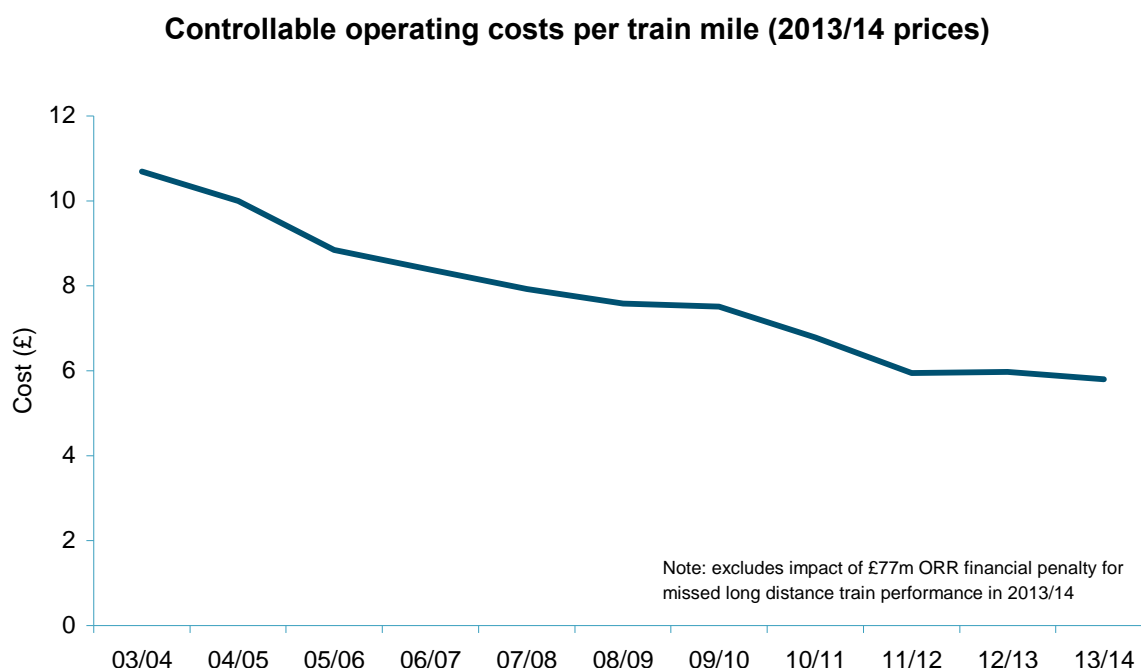
Controllable opex and Maintenance

Controllable opex and Maintenance costs include the provisions for the financial penalty as a result of us missing the regulatory long distance train performance target in the year. 86.9 per cent of trains arrived on time compared to a target of 92 per cent, with the penalty assessed at £1.5m per 0.1 per cent shortfall in performance, giving a total provision of £77m. On 7 July 2014 the ORR announced a total financial penalty of £53m to reflect factors outside on Network Rail's control. The difference between the provision for the financial penalty and the amount to be paid will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. Further allowance of £68m was made for redundancy costs being incurred as part of our management headcount reduction and the next phase of relocation of staff to our centre in Milton Keynes. These initiatives are important steps towards achieving the saving in overhead costs we need to make in the next control period.

The impact of one-off costs in particular means that costs per train mile are only slightly lower than they were two years ago.

Directors' Review continued

In £m 2013/14 prices unless stated otherwise



Controllable opex variances are discussed in more detail in Statement 7. Additional information about Maintenance costs are set out in Statement 8.

Non-controllable opex

Non-controllable opex increased by £36m to £546m due to a combination of higher than expected EC4T (Electricity Costs for Traction) costs and higher Cumulo expenses. The former represents the costs that Network Rail has to pay for electricity which is passed on to train operators to allow them to power their electrified train services. The cost to Network Rail, therefore, varies with market electricity prices. Most of these costs are recoverable from operators through turnover. Non-controllable opex is disclosed in more detail in Statement 7a.

Performance regime

Train operators pay us to access the railway network and we compensate them when they are not able to run their trains due to asset failures or other events such as suicides and extreme weather, for which Network Rail bears the risk.

As with last year, train performance suffered through a combination of asset failures, operational planning issues and a period of intense bad weather, while the thresholds at which compensation is paid become more challenging each year. Consequently, we have incurred costs of £197m (2012/13: £140m) for unplanned disruption.

When we need to carry out engineering work, we may restrict operators' access to the railway network. We may also agree emergency timetables when there is prolonged disruption - for instance around Dawlish and the Somerset Levels - or we expect circumstances to be such that the railway will suffer disruption - such as the restriction of services on the day of the St Jude storm.

Directors' Review continued

In £m 2013/14 prices unless stated otherwise

As the amount of renewal spend has grown, this has driven a significant increase in our access requirements even though we have got better at planning work in possessions. Together with the disruption caused by the long term effects of severe weather, we have incurred costs of £167m (2012/13: £125m) in respect of planned disruption which more than offsets the access charge supplement of £146m (2012/13: £153m).

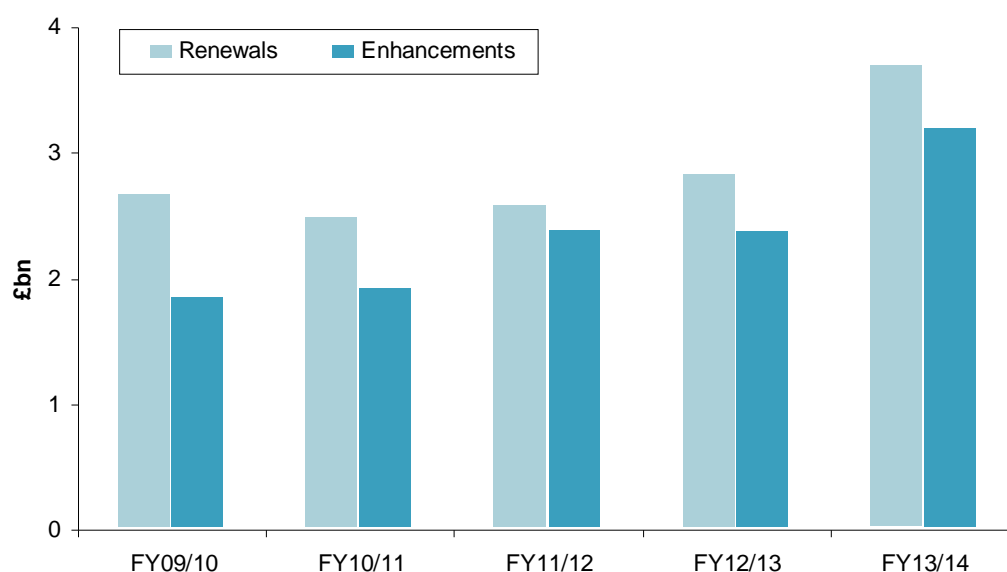
Capital expenditure (Renewals and Enhancements)

We invested an unprecedented £6,899m in the railway network this year, up from the already high £5,213m last year.

We spent £3,198m on enhancements, increasing the capacity and capability of the railway for the future. Significant progress has been made on major projects including Thameslink, Reading Station Area, Birmingham New Street Station, Crossrail and Electrification; however equally important are the many investments to improve train performance, line speed, freight access, platform lengths, power supply and disabled access. Enhancements are disclosed in more detail in Statement 3.

As our asset knowledge and delivery plans have matured, we have spent £3,701m renewing our assets. We have delivered increased volumes of track, signalling and structures renewals, utilising new technology where possible and working more collaboratively with train operators following devolution of decision making to routes. Additional information about Renewals expenditure is presented in Statement 9.

CP4 Investment Programme



Directors' Review continued

In £m 2013/14 prices unless stated otherwise

Statement 2: The Regulatory Asset Base (RAB)

The regulatory asset base (RAB) represents the ORR's calculation of the value of Network Rail's assets. The RAB is a key building block in the Regulator's methodology for determining access charges in the control period since it forms the basis for calculating the level of allowed return.

Subject to certain criteria established by the ORR and set out in the Regulatory Accounting Guidelines March 2014, each year capital expenditure is added to the RAB and amortisation is deducted. The ORR can make deductions from the RAB in the event that we do not achieve our required outputs, for example not meeting required train performance or breaching a licence condition, or where the ORR wishes to make a retrospective funding adjustment. In respect of outputs in Control Period 4, we have made allowance for the estimated adjustments for missed train performance, asset management and enhancement milestones, offset by the estimated double count between each item. This comes to £133m in total. The adjustments are determined by the ORR and we have no right of appeal. The ORR is currently finalising its' view on the appropriate closing value of the RAB at the end of control period 4 which is expected to be formalised in their Annual Efficiency and Finance Assessment due to be published later in the year.

Statement 4: Net Debt

We finance our investment activities by raising debt. The cost of servicing this debt is addressed as part of the five-yearly regulatory settlement. Following the recent decision by the Office for National Statistics to reclassify us as a central government body the Government has determined that, in future, value for money for the taxpayer will best be secured by us borrowing directly from the Government rather than issuing debt in our own name.

Borrowing

During the year, debt repayments of £3,975m and part of the £6,899m investment programme were financed through debt issuance of £5,104m and a reduction in cash balances of £2,123m.

	2014	2013
For the year ended 31 March	£m	£m
Borrowing to fund investment	1,129	3,548
Borrowing to refinance	3,975	1,203
Bonds issued in the year	5,104	4,751

Directors' Review continued

In £m 2013/14 prices unless stated otherwise

Net debt increased in the year from £28,930m to £32,300m as a result of the investment in the network. At the end of the year, the key ratio of debt compared to the Regulatory Asset Base was 65 per cent (2012/13: 64 per cent) and well below the ceiling of 75 per cent set in the network licence.

Statement 12: Efficiency

We achieved 15.5 per cent efficiency for the final year of the control period. Whilst this was lower than the Regulator's target of 21 per cent this shortfall was mostly driven by one-off costs incurred in the current year, such as re-structuring costs and discretionary renewals projects (both of which represent investments this year to deliver benefits in control period 5 and beyond) as well as the impact of the ORR long distance financial penalty.

There is inherent subjectivity in the assessment of efficiency. Evaluating the level of efficiencies delivered not only entails an appreciation of the financial costs of the company but also requires an understanding of the current asset condition and network capability and an assessment of the impact work carried out today will have on the future condition of the network.

We believe that efficiencies have been calculated robustly, in line with the policies set out in its efficiency handbook which has been shared with the Regulator and other stakeholders.

Reclassification

In December 2013, the Office for National Statistics published their conclusion that a change in European accounting rules meant we are to be reclassified as a central government body. Our borrowing arrangements are changing as noted above. We have an agreement with the Department for Transport setting out the shared objective of not changing anything unnecessarily and we will work together over the coming months to preserve as far as possible our ability to manage our business independently and on a long-term basis.

Directors' Review continued

In £m 2013/14 prices unless stated otherwise

Summary

This has been a difficult year for Network Rail, in which significant progress on investment has not been matched by strong operational performance. We have not ended the control period where we wanted to be in all areas.

We must remember that while we are missing today's challenging targets, in many respects we are performing at historical highs. In many areas, such as asset condition and increasing capacity, we have made very real progress. We have made real savings in costs and we have spent considerably less than assumed five years ago.

The regulatory settlement for control period 5 is going to be a challenge, especially for train performance. We have published our delivery plan, now we need to deliver it.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 17 July 2014.

Signed on behalf of the Board of Directors



Mark Carne (Director)



Patrick Butcher (Director)

Statement of Directors' Responsibilities

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

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

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2014 and (save as otherwise provided in Condition 11 or the Regulatory Accounting Guidelines March 2014) on a consistent basis in respect of each financial year;
- prepare the Regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary Statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
 - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the access review periods specified in the Regulatory Accounting Guidelines March 2014; (and so that where the presentation of an item in the primary Statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary Statement, a Statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the Regulatory Accounting Guidelines March 2014 with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial Statements with any corresponding items in annual statutory accounts for the access review periods specified in the Regulatory Accounting Guidelines March 2014;
- include narrative explaining the material variances from the previous year and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 11, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 3.1 and (where applicable) with Condition 3.2 and, if so requested by the ORR, evidence in support of that confirmation.

In addition the directors are responsible for selecting suitable accounting policies where these are not directed by Regulatory Accounting Guidelines March 2014 and for making judgements and estimates that are reasonable and prudent.

The Board of Directors is also required to approve formally the Regulatory financial statements by signing the Directors' Review of the Regulatory financial statements.

In accordance with the Regulatory Accounting Guidelines March 2014 the statutory financial statements are submitted to the ORR along with these Regulatory financial statements to enable a comparison. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion and are submitted for information only.

Independent Auditors' Report to the company and the ORR - PwC

Independent Auditor's report to the Office of Rail Regulation (the ORR, referred to as the "Regulator") and Network Rail Infrastructure Limited

Our opinion

In our opinion the Regulatory financial statements, defined below:

- fairly present in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on page 24, the state of the Company's financial position at 31 March 2014 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 11 of the Regulatory Licence, the Regulatory Accounting Guidelines and the accounting policies.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Regulatory financial statements for the year ended 31 March 2014, which are prepared by Network Rail Infrastructure Limited (the "Company"), comprise:

- Statement (separately for GB, England and Wales and Scotland)("referred to collectively as "Statement") 1: Summary regulatory financial performance;
- Statement 2a: RAB – regulatory financial position;
- Statement 2b: RAB – reconciliation of expenditure;
- Statement 2c: RAB – Summary of movements;
- Statement 3: Analysis of enhancement capital expenditure;
- Statement 4: Net debt and financial ratios;
- Statement 6a: Analysis of income;
- Statement 6b: Analysis of other single till income;
- Statement 6c: Analysis of income by operator;
- Statement 7a: Analysis of operating expenditure;
- Statement 7b: Analysis of operating expenditure by activity;
- Statement 7d: Overhead reconciliation;
- Statement 8a: Summary analysis of maintenance expenditure;
- Statement 9a: Summary analysis of renewals expenditure;
- Statement 10: Other information;
- Route Statements 1: Summary regulatory financial performance;
- Route Statements 3: Analysis of enhancement capital expenditure;
- Route Statements 6a: Analysis of income;
- Route Statements 7a: Analysis of operating expenditure;
- Route Statements 8a: Summary analysis of maintenance expenditure;
- Route Statements 9a: Summary analysis of renewals expenditure;
- Route Statements 10: Other information
- Financial information about alliancing arrangements with train operators
- Route Statements 18: Strategic routes maintenance expenditure analysis;

Independent Auditors' Report to the company and the ORR – PwC continued

- Route Statements 19: Strategic routes renewals expenditure analysis;
- A: Reconciliation of RAB to Statutory Railway Network Fixed Assets;
- B: Reconciliation of Operating and Maintenance Expenditure between regulatory financial statements and Statutory Accounts;
- C: Reconciliation of Regulatory Income to Statutory Turnover;
- D: Reconciliation of Regulatory Debt to Statutory Net debt;
- E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- F: Reconciliation of Regulatory Financing Costs to Statutory Income Expense.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

As set out in the Regulatory Accounting Guidelines, we have not audited the other statements contained within the Regulatory financial statements

Basis of preparation

In forming our opinion on the Regulatory financial statements, which is not modified, we draw attention to the Statement of Accounting Policies which describes the basis of preparation of the Regulatory financial statements. The Regulatory financial statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs 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.

What an audit of Regulatory financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the Regulatory financial statements sufficient to give reasonable assurance that the Regulatory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been;
- consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the Regulatory financial statements.

Independent Auditors' Report to the company and the ORR – PwC continued

In addition, we read all the financial and non-financial information in the Regulatory financial statements (the "Regulatory Annual report") to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. However, we have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory financial statements are consistent with those used in the preparation of the statutory financial statements of Network Rail Infrastructure Limited. Furthermore, as the nature, form and content of Regulatory financial statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Opinion on other matters in accordance with the engagement contract

In our opinion the information given in the Directors' Review, and the Comments included below each Statement that is subject to audit, is consistent with the Regulatory financial statements.

Responsibilities for the Regulatory financial statements and the audit

Our responsibilities and those of the Directors and the Regulator

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the Regulatory financial statements and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory financial statements in accordance with ISAs (UK and Ireland), except as stated in the 'What an audit of Regulatory financial statements involves' section above, and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors' Report to the company and the ORR – PwC continued

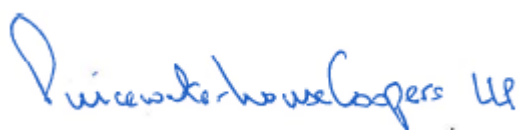
This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the requirement of Condition 11 of the Company's regulatory licence dated 31 March 1994 as amended on 2 July 2004, 12 April 2007, 1 April 2009, 31 March 2010 and 1 March 2014 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our 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, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Other matters

The nature, form and content of Regulatory financial statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory financial statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2014 on which we reported on 11 June 2014, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "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. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are 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, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

27 August 2014

Independent Auditors' Report to the company and the ORR – PwC continued

Notes:

1. The maintenance and integrity of the Network Rail Infrastructure Limited's web site is the responsibility of the Company's directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory financial statements since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of statutory financial statements and Regulatory financial statements may differ from legislation in other jurisdictions.

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 2014, which comprise:

- Statement 8b – Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU);
- Statement 9b – Detailed analysis of renewals expenditure;
- Statement 12 – Analysis of efficiency (Real Economic Efficiency Measure);
- Statement 13 – Volume incentives;
- Statement 14 – Maintenance unit costs; and
- Statement 15 – Renewals unit costs and coverage.

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 of the Network Licence. As stated in Clause 2.26 of the Regulatory Accounting Guidelines (RAGs) dated March 2014, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory accounts. This complements the work of the auditors.

Work completed – basis of opinion

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

We have performed where possible, compliance tests to confirm the adequacy of accounting controls and procedures and detailed substantive testing to confirm the accuracy of accounting entries with reference to original underlying data records.

We have also reviewed the extent to which Network Rail is able to demonstrate that its maintenance and renewals activities are robust and sustainable.

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

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.

However, we consider there to be uncertainty with respect to efficiencies being reported in relation to a number of asset renewal and maintenance areas.

For plant and machinery renewals, we have not received sufficient evidence to demonstrate how the reported efficiencies have been realized. The total claimed efficiencies in respect of plant and machinery expenditure for 2013/14 amount to approximately £65m.

For certain categories of maintenance activity associated with track assets, we have not received sufficient evidence to demonstrate satisfactorily that there is no linkage between expenditure levels feeding into Network Rail's efficiency calculation and the non-delivery of regulated CP4 outputs during 2013/14 (passenger train service performance, measured using the "PPM" metric as well as "freight delay per 100 kilometres").

There are £35m of efficiency savings across the categories of maintenance expenditure in question. Further evidence and analysis would be required in order for us to assess adequately what proportion, if any, of this expenditure relates to non-performance and hence should not be claimed as efficiency.

For certain categories of maintenance activity associated with electrification assets we have not received sufficient evidence to demonstrate satisfactorily that there is no linkage between expenditure levels feeding into Network Rail's efficiency calculation and the shortfall in the target reliability measure "power incidents causing delays greater than 300 minutes" during 2013/14.

Network Rail is reporting a total inefficiency amounting to approximately £69m across the relevant categories of maintenance expenditure. Further evidence and analysis would be required in order for us to assess adequately the extent to which this may understate the recorded level of inefficiency.

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

Yours faithfully.

A handwritten signature in black ink, appearing to read 'S J Sanders', with a long horizontal flourish extending to the right.

Stefan J Sanders
Named Independent Reporter
Ove Arup & Partners Ltd
27 August 2014

Accounting Policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence dated 31 March 1994, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 11 of the Licence and the Statements must be prepared in accordance with detailed Regulatory Accounting Guidelines issued by ORR under Condition 11 in March 2014.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the Regulatory Accounting Guidelines ("RAGs") issued by the ORR in March 2014. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2014 which were approved by the Directors on 11 June 2014 and will be filed with the Registrar of Companies in July 2014 with the following exceptions:

Inflation

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

Regulatory Asset Base

The Regulatory Asset Base (RAB) has been calculated in accordance with the RAGs and the RAB roll forward policy set out therein. As in previous years this requires management to make their best assessment of efficiency savings achieved along with other judgements around performance. The judgements reached on efficiency savings continue to be discussed with the Regulator and the reporter and are therefore subject to amendments once the final control period 4 position is agreed. Management have made adjustments to reflect their best estimate of uncertainties identified. Nevertheless, these uncertainties could result in adjustments to the RAB valuation which, as stated in the RAGs, remains provisional until the an ex-post assessment at the beginning of the next control period has been completed by the Regulator.

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 30 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2008. The opening RAB at 1 April 2013 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Reactive works on structures and operational property

Certain reactive and cyclical works on structures and operational property are recorded in the Periodic Review 2008 as renewals. Therefore, in these Regulatory financial statements they have been disclosed as renewals to give the most appropriate comparison with the Periodic Review 2008. In the statutory accounts, such amounts are recorded as maintenance within operating costs as they do not represent capital expenditure in accordance with IAS 16 'Property, Plant & Equipment'.

Debt

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

Accounting Policies continued

Capitalised interest

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

Pensions

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

Turnover

For Regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts, but does include the access charge supplement. Also, income in the Regulatory financial statements includes profit on the disposal of properties. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 'Presentation of Financial Statements'. For Regulatory financial statements purposes the net income earned by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) is included within income to be consistent with the treatment in the ORR Periodic Review 2008. For statutory purposes Network Rail (High Speed) Limited net income appears within operating costs.

Basis of disaggregation

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

However, for the Regulatory financial statements Network Rail is obliged to present information about the performance of the business in Scotland and England & Wales. This is in line with the requirements in previous years and the basis of disaggregation is the same as in previous years.

In addition, Network Rail is required to publish disaggregated financial information to provide income and expenditure data for all operational and strategic routes. The basis of calculation for operational and strategic routes is discussed in more detail below.

Operational Routes

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

(a) directly attributed - route managed. Income and expenditure in this category is managed at route level. For these items there is a direct alignment between management responsibility and route.

Accounting Policies continued

(b) centrally managed - attributable to routes. Income and expenditure in this category is not currently managed at route level. However, even though the management responsibility may not be locally based, the income is earned and costs are incurred locally. For those maintenance and renewals projects that cover more than one route or are network wide, apportionment is applied using local analysis and direction from the project teams where relevant.

(c) centrally managed – network wide. Income and expenditure in this category is incurred for the whole network or company as whole. These items can only be allocated to a route by apportioning the income and expenditure across all of the routes. The method for allocating these is train miles. Train miles represents the level of activity on the network and is therefore considered an appropriate proxy for the proportion of costs attributable to each route. Whilst it may be possible to argue that different costs have different drivers, the use of a single metric enables a more transparent disaggregation method for these statements.

(2) Income

A significant proportion of Network Rail's income falls into the category of Track Access, which is accounted for by train/ freight operator. The train operator company billing system indicates the geographic point where the variable track income has occurred, so these train operator company incomes (including Fixed Track, Schedule 4 and Schedule 8) can be accounted for in each route directly. Network Grant is Network Rail's largest source of income and has been allocated in proportion to this Fixed Track split.

Station, Depot and Other Property income, whilst managed by central teams, is all location based and therefore can be attributed to the appropriate route using local analysis.

Any non-direct element on an income line that relates to the entire network is then allocated to each route proportional to the direct element.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the disaggregated England & Wales route statements will not necessarily agree to the Great Britain figures.

(3) Operating Expenditure

Operating Expenditure follows the principles set out in (1) for each cost category; that is, it is the sum of the direct, attributable and network wide costs. Network Rail is split into various functions, each of which has been designated as belonging to one of these three categories based on the nature of their operations i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the disaggregated England & Wales route statements will not necessarily agree to the Great Britain figures.

Accounting Policies continued

(4) Maintenance Expenditure

Maintenance Expenditure also follows the principles set out in (1) for each cost category i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. Maintenance activity is split into routes with a central HQ function. The costs in each route are direct whilst the central HQ function costs have been allocated using local analysis.

Maintenance costs that exist outside the core maintenance delivery functions are allocated based on the particular function's category as indicated in (3).

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the disaggregated England & Wales route statements will not necessarily agree to the Great Britain figures.

(5) Renewals Expenditure

Renewals Expenditure also follows the principles set out in (1) for each asset class i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. The maintenance and operations functions within each route directly deliver their own renewals projects, but other functions such as Asset Management will also deliver projects on behalf of these routes. These costs will be allocated based on the particular function's category as indicated in (3).

If projects are delivered by central attributable functions, the costs have been split out using local analysis and direction from project teams. There will be projects that exist entirely within a route (which can be wholly allocated to a route) but there are also projects that will cover many routes where local knowledge of the workbanks has been used to allocate spend.

However, projects delivered by network wide functions will be allocated to the routes on the basis of train miles.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the disaggregated England & Wales route statements will not necessarily agree to the Great Britain figures.

(6) Enhancements Expenditure

Enhancements Expenditure also follows the principles set out in (1) for each Enhancement category i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. The maintenance and operations functions within each route directly deliver their own enhancements projects, but other functions such as Thameslink or Track will also deliver projects on behalf of these routes. These costs will be allocated based on the particular function's category as indicated in (3).

Accounting Policies continued

If projects are delivered by central attributable functions, the costs have been split out using local analysis and direction from project teams. For example, there will be projects that exist entirely within a route (which can be wholly allocated to a route) but there are also projects that will cover many routes where local knowledge of the workbanks has been used to correctly allocate spend.

However, projects delivered by network wide functions will be allocated to the routes on the basis of train miles.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the disaggregated England & Wales route statements will not necessarily agree to the Great Britain figures.

Strategic Routes

The RAGS require disclosures of renewals and maintenance data for each of the seventeen “Strategic Routes”, as specified by ORR in the Regulatory financial statement templates. Renewal and maintenance data for each Operational Route is allocated to Strategic Routes on the basis of train miles. This provides an indicative level of renewals and maintenance costs applicable for each Strategic Route.

Statement 1: GB Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽¹⁾	Cumulative Adjusted PR08	Difference	2012/13 Actual
Income ⁽¹⁾	6,741	6,735	6	33,552	33,513	39	6,713
Expenditure							
Controllable opex ⁽²⁾	1,071	793	(278)	5,088	4,346	(742)	964
Non-controllable opex	546	468	(78)	2,472	2,232	(240)	510
Maintenance	952	1,141	189	5,501	6,168	667	1,025
Schedule 4 & 8	364	145	(219)	1,189	893	(296)	265
Renewals	3,701	2,188	(1,513)	14,292	13,495	(797)	2,833
Enhancements	2,962	686	(2,276)	10,220	8,850	(1,370)	2,100
Financing costs	1,428	1,711	283	7,686	7,846	160	1,536
Corporation tax	(5)	10	15	7	26	19	-
Rebates	142	-	(142)	345	-	(345)	36
Total expenditure	11,161	7,142	(4,019)	46,800	43,856	(2,944)	9,269

Note:

- (1) Income does not include £168m recognised through the opex memorandum mechanism, including £61m earned through volume incentives (refer to Statement 10).
- (2) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £70m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income in the year was in line with the determination and favourable for the control period mostly due to favourable electricity traction and stations income partly offset by lower property and freight revenue. These variances are set out in more detail in Statement 6a.
- (3) Controllable opex was higher than the PR08 in both 2013/14 and the full control period in line with the Delivery Plan 2009. Controllable opex in the current year includes a financial penalty of £53m levied by the ORR due to inadequate train performance and a further £24m committed to improving train performance and the passenger experience. Controllable opex costs are set out in more detail in Statement 7a.
- (4) Non-controllable operating costs were more expensive than the Regulator's determination assumed for both the current year and the full control period largely due to higher electricity expenses and cumulo (property) rates. This is set out in more detail in Statement 7a.

Statement 1: GB Summary regulatory financial performance continued

In £m 2013/14 prices unless stated otherwise

- (5) Maintenance costs were lower than the PR08 in both 2013/14 and over the control period as Network Rail delivered greater efficiencies than the Regulator assumed in its determination. These savings are presented in more detail in Statement 8a(1).
- (6) Net Schedule 4 & 8 costs in both the year and control period were higher than the PR08 mostly due to Schedule 8 performance penalties as overall train punctuality was adverse to the regulatory targets for most of the control period. This is set out in more detail in Statement 10.
- (7) Renewals expenditure is set out in more detail in Statement 9a and is higher than the PR08 for 2013/14 largely due to re-profiling of expenditure within the control period and the delivery of additional outputs and projects over and above those set out by the Regulator in its PR08 determination. Underspend compared to the PR08 in earlier years of the control period has been caught up in later years of the control period. Expenditure in the control period is higher than the Regulator's assumption largely due to the delivery of projects not included in the PR08 determination.
- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 for the current year mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Crossrail and Electrification). Expenditure for the control period is higher than the PR08 assumed as Network Rail has invested over £3bn delivering schemes over and above those specified and funded in the determination, which is partly offset by work on some programmes being deferred to control period 5, notably Thameslink.
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) During the year rebates were paid to both the Department for Transport and Transport Scotland to allow them to share in Network Rail's financial outperformance. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement. Over the control period £328m was returned to government (£264m to the Department for Transport and £64m to Transport Scotland). The value of Rebates for the control period also includes amounts paid to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This system was designed to incentivize collaborative working practices between Network Rail and its track customers by allowed them to benefit from the financial outperformance achieved by Network Rail.

Statement 2a: GB RAB - regulatory financial position

In £m 2013/14 prices unless stated otherwise

A) Calculation of the GB RAB at 31 March 2014

	Actual	Adjusted PR08	Difference
Opening RAB for the year (2006/07 prices)	36,784	39,564	(2,780)
Indexation to 2012/13 prices	8,154	8,755	(601)
Opening RAB for the year (2012/13 prices)	44,938	48,319	(3,381)
Indexation for the year	1,190	1,279	(89)
Opening RAB (2013/14 prices)	46,128	49,598	(3,470)
Renewals	3,284	2,188	1,096
Enhancements PR08	1,448	688	760
Non PR08 Enhancements (added to RAB)	1,427	-	1,427
Total Enhancements	2,875	688	2,187
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(697)	(697)	-
Amortisation	(1,828)	(1,828)	-
Adjustments for missed regulatory outputs	315	-	315
Closing RAB at 31 March 2014	50,077	49,949	128

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative GB RAB at 31 March 2014

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4 Total
Opening RAB (2013/14 prices)	39,877	41,586	42,900	44,789	46,128	39,877
Adjustments for the actual capex outturn in CP3	(66)	-	-	-	-	(66)
Renewals	2,664	2,351	2,312	2,378	3,284	12,989
Enhancements PR08	1,211	1,098	1,565	1,434	1,448	6,756
Non PR08 Enhancements (added to the RAB)	248	262	470	468	1,427	2,875
Total Enhancements	1,459	1,360	2,035	1,902	2,875	9,631
Renewals & Enhancements funded from RFF	(521)	(570)	(631)	(665)	(697)	(3,084)
Amortisation	(1,827)	(1,827)	(1,827)	(1,828)	(1,828)	(9,137)
Adjustments for missed regulatory outputs	-	-	-	(448)	315	(133)
Closing RAB	41,586	42,900	44,789	46,128	50,077	50,077

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until and ex-post assessment has been completed by the Regulator after the end of the control period.

Statement 2a: GB RAB - regulatory financial position continued

In £m 2013/14 prices unless stated otherwise

- (2) Renewals – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible for inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI). In addition, under the rules of the rolling RAB mechanism any variance to the determination due to re-profiling of expenditure results in an adjustment for capitalised financing so that Network Rail does not benefit from (or is penalised for) this re-profiling.
- (3) Enhancements – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Crossrail and Electrification) were not included as part of the PR08 but have been approved in principle for RAB addition by the ORR.
- (4) In 2012/13 the RAB was reduced to reflect missed regulatory outputs, namely failure to achieve the ORR's punctuality targets for the following railway sectors: Long Distance, London South East and Regional. The reduction represented the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. This year, the Regulator has widened their scope of the required RAB reductions to consider the value of other missed outputs. It has also limited the financial affect on the RAB to 25 per cent of the value of the adjustment to be consistent with the Regulatory Accounting Guidelines' rules for the treatment of financial outperformance. This has resulted in a net increase in the RAB this year of £250m as shown in the above table, as the opening RAB included a decrease of £448m relating to train performance at the end of 2012/13. The reductions included in the RAB valuation for the whole control period are as follows:

Adjustment	£m	Note
Train performance	125	a
Sustainability – fencing and drainage	27	b
Double count within the above	(27)	c
Robustness of plant & machinery efficiencies	7	d
Enhancement milestones	1	e
Total RAB reduction for missed outputs	133	

- a. Train performance – as noted above the reduction represents the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. Although an adjustment has been made to reflect ORR's view of the impact of the extreme weather in 2013/14, this calculation does not take into account any of the other factors outside of Network Rail's reasonable control which adversely impacted on performance, such as Network trespass
- b. Sustainability – fencing and drainage – the ORR believe that Network Rail should have spend more in the current control period on fencing and drainage in order to manage these assets sustainably. This view is informed by Network Rail's Strategic Business Plan for control period 5 which suggests a significant increase in the planned expenditure on these assets.

Statement 2a: GB RAB - regulatory financial position continued

In £m 2013/14 prices unless stated otherwise

- c. Double count within the above – this represents the Regulator's belief that the savings made by Network Rail which resulted in lower than expected train performance are also reflected in the sustainability of fencing and drainage. Therefore, this adjustment is to remove this double count so that Network Rail is not penalised twice for the same under delivery.
- d. Robustness of plant & machinery efficiencies – following previous efficiency reviews undertaken by an independent third party, Arup, the Regulator has a concern that all of the efficiencies claimed by Network Rail in conjunction with the delivery of plant & machinery renewals are not sufficiently justified.
- e. Enhancement milestones – this refers to a project milestones missed on the St Pancras-Sheffield line speed improvements programme, Strategic Freight Network, Western Improvement Programme and EGIP which all impacted train passengers. The adjustment reflects either 2 or 5 per cent of the cost of the project (depending upon the impact on the train passenger) of the cost of the project which resulted in the missed milestone.

Note that the final value of these adjustments is subject to the ORR's Annual Financial and Efficiency Assessment.

- (5) In the recently published PR13 Determination the ORR have noted that they will reduce the control period 5 opening RAB by £1.3bn to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it is not included in the RAB valuation included in these Regulatory Financial Statements.

Statement 2b: GB RAB - reconciliation of expenditure

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/14	Actual	Adjusted PR08	Difference
Renewals						
Renewals in the determination			2,208	13,493	13,493	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(15)	(13)	(28)	(293)	(256)	(37)
CP3 deferrals to CP4	-	13	13	283	228	55
Seven day railway	28	2	30	60	56	4
Other adjustments to PR08	189	2	191	219	(26)	245
Adjusted PR08 determination (renewals)	202	4	2,414	13,762	13,495	267
Adjustments for the PR08 RAB roll forward policy						
Adjustments for acceleration/ (deferrals) of expenditure within CP4 ⁽¹⁾	1,026	(33)	993	(218)	-	(218)
Adjustments for deferrals of expenditure to CP5	(215)	(5)	(220)	(220)	-	(220)
IOPI index adjustments	(135)	(36)	(171)	(853)	-	(853)
Adjustments for efficient overspend	344	13	357	694	-	694
25% retention of efficient overspend	(86)	(6)	(92)	(176)	-	(176)
Other adjustments to amounts to be logged up to RAB	3	-	3	-	-	-
Total Renewals (added to the RAB)	1,139	(63)	3,284	12,989	13,495	(506)
Adjustment for inefficient overspend			235	802	-	802
Adjustment for capitalised financing			63	269	-	269
Adjustment for 25% retention of efficient overspend			86	167	-	167
Other adjustments to reconcile to total expenditure			33	65	-	65
Total actual renewals expenditure (see Statement 9a)			3,701	14,292	13,495	797

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/14	Actual	Adjusted PR08	Difference
Enhancements						
Enhancements in PR08			1,384	9,546	9,546	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	15	13	28	293	256	37
CP3 deferrals to CP4	-	5	5	101	85	16
Change in funding arrangements	(52)	(9)	(61)	(221)	(198)	(23)
Other adjustments to PR08	(107)	(43)	(150)	(635)	(587)	(48)
Adjusted PR08 determination (enhancements)	(144)	(34)	1,206	9,084	9,102	(18)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for efficient under spend	(74)	(3)	(77)	(94)	-	(94)
25% retention of efficient under spend	18	1	19	23	-	23
Adjustments relating to enhancements funds	(103)	-	(103)	(103)	-	(103)
Adjustments for (deferrals)/ acceleration of expenditure within CP4 ⁽¹⁾	2,251	(68)	2,183	(374)	-	(374)
Adjustments for deferrals of expenditure to CP5	(1,739)	(41)	(1,780)	(1,780)	(252)	(1,528)
Total PR08 enhancements (added to the RAB)	209	(145)	1,448	6,756	8,850	(2,094)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	1,056	170	1,226	1,472	-	1,472
Non PR08 enhancements expenditure not qualifying for capitalised financing	201	-	201	1,403	-	1,403
Total non PR08 enhancements (added to the RAB)	1,257	170	1,427	2,875	-	2,875
Total enhancements (added to the RAB)	1,466	25	2,875	9,631	8,850	781
Adjustment for inefficient overspend			(2)	7	-	7
Adjustment for capitalised financing			(25)	279	-	279
Adjustment for 25% retention of efficient under spend			(18)	(23)	-	(23)
Other adjustments to reconcile to total PR08 expenditure			-	(20)	-	(20)
Non PR08 expenditure						
Third party funded schemes			236	1,516	-	1,516
Other adjustments to reconcile to total non PR08 expenditure			132	346	-	346
Total actual enhancement expenditure (see Statement 3)			3,198	11,736	8,850	2,886

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

Memo item 1 - Outstanding non-capex RAB additions (cash prices)	2009/10	2010/11	2011/12	2012/13	2013/14
Brought forward balance	4,613	4,472	4,522	4,586	4,548
Indexation for the year	13	211	234	137	122
Amortisation	(154)	(161)	(170)	(175)	(180)
Closing balance	4,472	4,522	4,586	4,548	4,490

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB value is considered to be provisional until and ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Agreed adjustments to the PR08 arising from, for example, adjustments to outputs, errors in the determination and changes in funding;
 - b. Deferrals/ acceleration of capital works within the control period and net deferrals/ acceleration of capital works into/ from control period 5;
 - c. Changes in input prices as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) Renewals – other adjustment to PR08 represents various other changes agreed with ORR including structures funding outlined in the Government's Autumn Statement 2011 and a reduction in operational property funding to reflect changes in franchise arrangements in Anglia.
- (4) Renewals – Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (5) Renewals – Adjustments for deferrals of expenditure to control period 5 refers to work postponed to future control periods. As this is not a genuine saving, the allowances in the PR08 not eligible for RAB addition under the Regulatory Accounting Guidelines. The amount includes plain line track, electrification and operational property projects.

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (6) Renewals – IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until at least September 2014. Once this is finalised, the control period 4 closing RAB will be revised and restated in the Regulatory Financial Statements for the year ending 31 March 2015. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period the IOPI index has increased by 11.1 per cent compared to the RPI equivalent figure of 17.2 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition (including the impact of capitalised financing) by £168m in the year and £850m for the control period.
- (7) Renewals - Efficient overspend refers to projects where Network Rail delivered schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, the programme to improve asset management information, both of which will enable efficiency savings in control period 5 and beyond. Funding for these schemes were not included in the PR08. Under the terms of the Regulatory Asset Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects, with the other 75 per cent being eligible for addition to the RAB.
- (8) Renewals – Inefficient overspend reflects expenditure compared to the ORR allowances for renewals (after adjusting for net deferrals and agreed changes to the baseline in order to create a like-for-like comparison). This inefficient overspend is largely due to the impact of IOPI. As noted above, this has resulted in a reduction in the renewals allowance (£765m excluding capitalised financing) over the control period, which accounts for over 90 per cent of the Inefficient overspend for control period 4 reported in the above table.
- (9) Renewals – Other adjustments to reconcile to total expenditure shown in the above table largely relates to expenditure on renewals schemes which are ineligible for inclusion in the RAB. A number of projects were deferred from control period 3 to control period 4. The Regulator reduced the control period 3 closing RAB to reflect these deferrals and also allowed Network Rail to add the expenditure onto the RAB once the projects had been completed. However, there were certain projects that whilst the ORR acknowledged that Network Rail needed to deliver the ORR were unwilling to allow the expenditure to be added to the RAB.
- (10) Enhancements – Other adjustments to PR08 refers to other changes to the baseline agreed with the Regulator with the most notable item being de-scoping of parts of the West Coast Main Line Committed Scheme (Stafford bypass and power supply upgrade).

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (11) Enhancements – Efficient underspend represents savings made against the PR08 allowance whilst still delivering the required outputs for control period 4. Efficient underspend is recognised on a net basis for PR08 projects. The efficient underspend is a net position of the portfolio reflecting efficiencies on certain projects (such as Reading and East Coast Mainline Improvements) partly offset by additional costs on other programmes (such as Performance Fund (HLOS) and Birmingham New Street gateway). This excludes any (in)/efficiencies on schemes with their own tailored protocol (Thameslink and Airdrie to Bathgate) and ring fenced funds (for example, Access for All, CP5 Development fund). Under the mechanics of the rolling RAB, Network Rail retains 25 per cent of outperformance through a notional RAB addition.
- (12) Enhancements – Adjustments relating to funds refers to instances where network Rail has spend less on named funds (see Statement 3) than the PR08 allowances. These specific funds do not have definitive outputs associated with them and, therefore, any underspend against the regulatory allowance does not represent an efficient underspend and Network Rail cannot recognise any benefit from this reduced expenditure.
- (13) Enhancements - Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (14) Enhancements - Adjustments for deferrals of expenditure to control period 5 refers to work postponed to future control periods. As this is not a genuine saving, the allowances in the PR08 not eligible for RAB addition under the Regulatory Accounting Guidelines. Over half of this deferral refers to the Thameslink programme.
- (15) Enhancements – non-PR08 enhancements are schemes which were not included in the determination but have been identified since then. Expenditure on such projects is only eligible for addition to the RAB if approved by the ORR. The capital expenditure is adjusted for any additional income generated from the schemes so that amount included in the RAB represents the net financial cost to Network Rail. Expenditure on these types of schemes is set out in more detail in Statement 3.
- (16) Non-PR08 enhancements attract capitalised financing. This is to reflect the additional borrowing costs that Network Rail has incurred as part of the cost of constructing this new asset as these financing costs would not have been included as part of the Regulator's revenue calculation. For other non-PR08 enhancements, such as Crossrail, Network Rail is compensated for borrowing costs on an on-going basis meaning that no addition to the RAB for these financing costs is required.
- (17) Enhancements – Inefficient overspend occurs when Network Rail spends more than the PR08 allowance on particular schemes. The inefficient overspend is not eligible for addition to the RAB. Inefficient overspend relates to the Airdrie Bathgate programme where the project was delivered on time and within Network Rail's internal budget but the cost was higher than fixed price specified in the PR08 funding settlement.

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (18) Enhancements – Other adjustments to reconcile to total expenditure mostly refers to expenditure which is not eligible for addition to the RAB. As shown in Statement 3, Network Rail has spent £107m on Outperformance schemes, which is largely related to investment in the level crossing risk reduction programme, a scheme designed to remove level crossings from the network to improve public safety. There was no funding for this project in the regulatory settlement but Network Rail have funded this through its financial outperformance in the control period (refer to Statement 5). As noted above, income generated from non-PR08 enhancement schemes is deducted from the capital costs of the project to calculate how much is eligible for RAB addition. The Other adjustments line adds back this income to reflect the total level of expenditure shown in Statement 3.

Statement 2c: Summary of RAB movements

In £m 2013/14 prices unless stated otherwise

A) Renewals RAB additions

Movements	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	3,374	2,955	2,600	2,356	2,208	13,493
Deferrals from CP3	235	27	(4)	12	13	283
Delivery plan additions/ (reductions)	2	34	(28)	50	221	279
Delivery plan re-classifications	(71)	(76)	(66)	(52)	(28)	(293)
Adjusted PR08 determination	3,540	2,940	2,502	2,366	2,414	13,762
(Deferrals)/ acceleration within CP4	(787)	(566)	127	15	993	(218)
Deferrals to CP5	-	-	-	-	(220)	(220)
IOPI index adjustment	(90)	(46)	(361)	(185)	(171)	(853)
Other adjustments	-	(3)	-	-	3	-
Adjustments for efficient over spend	1	26	44	182	265	518
Total additions to RAB	2,664	2,351	2,312	2,378	3,284	12,989

B) Enhancements RAB additions

Movements	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	1,925	2,481	1,998	1,758	1,384	9,546
Deferrals from CP3	87	-	4	5	5	101
Delivery plan reductions	(9)	(118)	(7)	(26)	(61)	(221)
Delivery plan re-classifications	71	86	(289)	(88)	(122)	(342)
Adjusted PR08 determination	2,074	2,449	1,706	1,649	1,206	9,084
(Deferrals to)/ acceleration within CP4	(859)	(1,355)	(141)	(202)	2,183	(374)
Deferrals to CP5	-	-	-	-	(1,780)	(1,780)
Adjustments for efficient (under)/over spend	(4)	4	-	(13)	(58)	(71)
Other adjustments - Funds	-	-	-	-	(103)	(103)
PR08 determination additions to the RAB	1,211	1,098	1,565	1,434	1,448	6,756
Non-PR08 determination additions to the RAB	248	262	470	468	1,427	2,875
Total additions to RAB	1,459	1,360	2,035	1,902	2,875	9,631

Statement 3: GB Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	371	584	213	2,540	3,451	911
Airdrie to Bathgate	(8)	-	8	246	240	(6)
Total Schemes covered by a tailored protocol or fixed price agreement	363	584	221	2,786	3,691	905
Funds						
CP5 development fund	3	28	25	63	63	-
NRDF (Network Rail Discretionary Fund)	102	59	(43)	273	293	20
Access for All	82	85	3	289	306	17
NSIP (National Stations Improvement Programme)	44	32	(12)	186	188	2
SFN (Strategic Freight Network)	101	24	(77)	212	220	8
Safety and environment fund	34	-	(34)	135	138	3
Tier 3 project development	6	3	(3)	13	16	3
Small projects fund	13	5	(8)	25	25	-
Adjustment due to change of funding from DfT – Access for All	(40)	(40)	-	(164)	(164)	-
Adjustment due to change of funding from DfT – NSIP (National Stations Improvement Programme)	(12)	(12)	-	(32)	(32)	-
Total Funds	333	184	(149)	1,000	1,053	53
Other PR08 funded schemes						
Performance fund (HLOS) ⁽¹⁾	86	26	(60)	253	131	(122)
Seven day railway fund ⁽¹⁾	126	76	(50)	207	246	39
Intercity express programme	24	52	28	62	231	169
King's Cross	17	17	-	383	388	5
Birmingham New Street gateway project	26	(11)	(37)	73	122	49
East Coast Mainline overhead line enhancement	5	-	(5)	32	44	12
St Pancras - Sheffield line speed improvements	31	10	(21)	62	79	17
Nottingham Resignalling	5	-	(5)	12	13	1
North London Line capacity enhancement	-	-	-	80	80	-
GSM-R on freight routes	-	-	-	-	-	-
Station security	-	3	3	13	21	8
Reading	91	94	3	526	610	84
Platform Lengthening - Southern	87	8	(79)	301	408	107
Southern Capacity	17	-	(17)	42	48	6
ECML improvements	174	56	(118)	436	588	152
Power supply upgrade	58	(70)	(128)	143	84	(59)
Western Improvements Programme	10	(15)	(25)	81	94	13
WCML Committed Schemes	77	108	31	272	350	78
Midlands Improvement Programme	9	(43)	(52)	37	52	15
Northern Urban Centres - Leeds	-	16	16	15	99	84
Northern Urban Centres - Manchester	5	1	(4)	40	103	63
Trans Pennine Express linespeed improvements	8	-	(8)	11	36	25
Paisley Corridor Improvements	8	-	(8)	169	173	4
Borders railway	2	1	(1)	2	4	2
Glasgow to Kilmarnock	-	-	-	18	17	(1)
Unallocated Overheads	8	-	(8)	46	-	(46)
Total Other PR08 funded schemes	874	329	(545)	3,316	4,021	705
CP4 Delivery Plan	1,570	1,097	(473)	7,102	8,765	1,663
Schemes carried over from CP3						
WCRM	-	-	-	47	47	-
ERTMS	-	-	-	23	23	-
Cab fitment	-	-	-	15	15	-
Total Schemes carried over from CP3	-	-	-	85	85	-
Re-profiled expenditure due to programme deferral						
	-	(411)	(411)	-	-	-
Total PR08 funded enhancements (see Statement 2b)	1,570	686	(884)	7,187	8,850	1,663

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	201	-	(201)	508	-	(508)
Edinburgh - Glasgow Improvements (EGIP)	105	-	(105)	207	-	(207)
Electrification	267	-	(267)	507	-	(507)
Ayrshire Inverclyde	-	-	-	21	-	(21)
Edinburgh Waverley steps	-	-	-	11	-	(11)
Borders Railway	107	-	(107)	137	-	(137)
Paisley Canal line electrification	-	-	-	9	-	(9)
Northern Hub - Phase 1	21	-	(21)	36	-	(36)
Stations Commercial Project Fund (SCPF)	65	-	(65)	78	-	(78)
Winter resilience	-	-	-	16	-	(16)
Nuneaton North Cord (TIF)	-	-	-	4	-	(4)
Mid tier accessibility	18	-	(18)	25	-	(25)
CP5 early start schemes	5	-	(5)	5	-	(5)
Swindon-Kemble line doubling	32	-	(32)	32	-	(32)
Reading	95	-	(95)	95	-	(95)
NEP – Midland Main Line	24	-	(24)	24	-	(24)
Rutherglen to Newton capacity	5	-	(5)	5	-	(5)
East-West rail	63	-	(63)	63	-	(63)
Walsall to Rugeley Trent valley electrification	5	-	(5)	5	-	(5)
East Kent re-signalling	6	-	(6)	6	-	(6)
High Speed development	6	-	(6)	6	-	(6)
Birmingham New Street	25	-	(25)	25	-	(25)
Rutherglen & Coatbridge electrification	11	-	(11)	11	-	(11)
Other Government sponsored schemes	34	-	(34)	89	-	(89)
Total Government sponsored schemes	1,095	-	(1,095)	1,925	-	(1,925)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	5	-	(5)
Victoria Place shopping centre	11	-	(11)	110	-	(110)
Waterloo Retail development project	-	-	-	25	-	(25)
Kings Cross concourse	-	-	-	11	-	(11)
London Bridge retail development	8	-	(8)	15	-	(15)
Liverpool Street offices	9	-	(9)	9	-	(9)
Acquisition of freight sites	189	-	(189)	189	-	(189)
Mooring Lane, Hackney Arches re-development	7	-	(7)	7	-	(7)
Other income generating schemes	36	-	(36)	167	-	(167)
Adjustment for income generating schemes ⁽²⁾	(27)	-	27	(67)	-	67
Total Network Rail sponsored schemes (income generating)	233	-	(233)	471	-	(471)

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Schemes promoted by third parties						
Virgin West Coast Car Parks	-	-	-	45	-	(45)
Evergreen 3	(23)	-	23	141	-	(141)
SSWT promoted schemes	-	-	-	36	-	(36)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	24	-	(24)
EMT promoted schemes	(3)	-	3	12	-	(12)
Southampton Airport Parkway Car Park	-	-	-	13	-	(13)
Chiltern Moor Street	-	-	-	14	-	(14)
SSWT ticket gates and vending machine	4	-	(4)	24	-	(24)
Southern promoted schemes	-	-	-	31	-	(31)
Nottingham hub	14	-	(14)	35	-	(35)
FGW promoted schemes	-	-	-	13	-	(13)
FSR ticket gates	-	-	-	5	-	(5)
Virgin 11 car Pendolino on West Coast	-	-	-	12	-	(12)
Thameshaven Branch Re-doubling	(10)	-	10	-	-	-
Other schemes promoted by third parties	(9)	-	9	30	-	(30)
Adjustment for third party promoted schemes ⁽³⁾	(44)	-	44	(147)	-	147
Total Schemes promoted by third parties	(71)	-	71	297	-	(297)
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	64	-	(64)	110	-	(110)
Schemes with pay back period within the control period	-	-	-	16	-	(16)
Adjustment for income generating schemes and facility fees	71	-	(71)	214	-	(214)
Total enhancement expenditure not meeting ORR criteria for RAB addition	135	-	(135)	340	-	(340)
Total Network Rail funded enhancements (see Statement 1)	2,962	686	(2,276)	10,220	8,850	(1,370)
Third party funded (PAYG)	236	-	(236)	1,516	-	(1,516)
Total enhancements (see Statement 2b)	3,198	686	(2,512)	11,736	8,850	(2,886)

Notes:

- (1) Performance Fund (HLOS) and Seven Day Railway fund were shown within the Funds section of Statement 3 last year. These have been re-classified following clarification provided by the Regulator.
- (2) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.
- (3) Within schemes promoted by third parties is an adjustment for revenue received from third parties as a direct result of completing such schemes. For such schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance. The current year and the control period figure also includes £52m and £196m respectively received from the DfT for schemes previously funded through control period 4 RAB addition within the Funds section.
- (5) Enhancement expenditure by Network Rail in the year was £2,962m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£3,198m) less the PAYG schemes funded by third parties (£236m).
- (6) Enhancements in adjusted PR08 represent changes agreed with the regulator in the current year but may relate to previous years. Consequently, the relatively low adjusted PR08 allowance in the current year is a balancing figure to get the control period 4 total correct.
- (7) Overall, expenditure on PR08 enhancements was in line with the previous year, although there were movements between the individual programmes. Lower expenditure on certain programmes, particularly Reading (the previous year included work towards two major milestones – Key Output 1 and Key Output 2) and WCML Committed Schemes (less activity on Bletchley Remodelling and Power Supply Upgrade projects) have been counteracted by increased activity on other programmes, notably NRDF, Access for All, Performance fund and Seven day railway fund (as suitable projects have been identified and delivered to improve network accessibility, performance and availability). Spend on PR08-defined enhancements in the control period was some £1.7bn lower than the Regulator assumed, which was mainly due to deferral of work (notably Thameslink) although there was also some financial outperformance (£91m excluding capitalised financing). These variances are explained in more detail in the below paragraphs.
- (8) Schemes covered by a tailored protocol of fixed price agreement – this section covers Thameslink (which has its own protocol framework between Network Rail and the Department for Transport which covers delivery, cost and performance) and Airdrie to Bathgate (which the PR08 specified a fixed price for the project with Network Rail bearing the risk/ reward of any over/ under spend).

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- a. Thameslink – this programme was divided into three separate components with the objective of increasing the frequency with which services could operate on this part of the network. Spend in the year and across the control period is lower than the ORR expectation. This is due to activity being deferred until future control periods. The programme was originally expected to be completed early in control period 5 but has been re-phased until later which is reflected in the Regulator's funding settlement for control period 5. The total anticipated final cost of the Thameslink programme is expected to be in line with the allowances provided by ORR, so no outperformance (or underperformance) is expected over the life of the total programme and therefore no efficiency was recognised in control period 4.
 - b. Airdrie to Bathgate – this project provided 22km of new route (as well as upgrading 31km of existing infrastructure) to connect the two sites. The project was delivered on time and in line with Network Rail's internal budget. However, expenditure on the total programme was higher than the fixed price allowed for the project set out in the PR08. This additional expenditure is not eligible for inclusion in the RAB (refer to Statement 2b) and results in financial underperformance (refer to Statement 5).
- (9) Funds – the PR08 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific project output. The regulatory allowances and actual expenditure on these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlined the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB (refer to Statement 2b) and does not contribute to financial outperformance (refer to Statement 5). However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure and PR08 assumptions for the control period are set out below:
- a. NRDF – lower levels of investment than planned as insufficient schemes meeting the eligibility criteria were developed. Network Rail has an obligation to make sure that the funding available in the PR08 is used as effectively as possible meaning that projects have to deliver suitable benefits before they are allowed to draw down from this fund.
 - b. Access for All – expenditure was lower than the adjusted PR08 allowance as certain specific schemes were deferred from control period 4 to control period 5 (primarily arising from planning consent delays).
 - c. SFN – overall costs have been lower than the ORR assumed mainly due to delivery difficulties on two projects: Southampton West Coast Main Line train lengthening and Ipswich Yard. The ORR has agreed to fund both of these projects through the control period 5 settlement.
 - d. Adjustments due to change of funding from DfT – during the control period, the Department for Transport funded certain Access for All and NSIP projects directly rather than the costs of these projects being added to the RAB. The values in the Access for All and NSIP headings in the table are shown gross of these adjustments to provide a like-for-like comparison to the PR08 allowances with the corresponding reduction in expenditure to be added to the RAB disclosed under this classification.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

(10) PR08 funded schemes – the following notable variances between expenditure and PR08 assumptions for the control period are set out below:

- a. Performance fund (HLOS) – Network Rail invested heavily to improve train performance in the control period. Many of the benefits of this investment occurred too late to have a discernable impact in control period 4 but should facilitate improvements in the next control period. Network Rail utilised £39m of underspend on Seven day railway fund to help deliver these projects, thus reducing the internal overspend compared to available funding for the control period. This net overspend offsets some of the underspends delivered on other projects thus reducing the total enhancement additions to the RAB (refer to Statement 2b) and also reduces financial outperformance (refer to Statement 5).
- b. Seven day railway fund – Network Rail transferred £39m of the PR08 allowance for the control period to Performance fund to utilise Seven day railway funding not allocated to individual projects.
- c. Intercity express programme – the outputs of this included infrastructure ready to accept the operation of the Intercity Express trains being obtained for the industry under a train service provision contract by the DfT. Due to delays in the government procuring the appropriate rolling stock required many outputs of the scheme have been deferred from control period 4 resulting in the variance set out in the above table. As this variance has arisen from timing differences and not from efficient project delivery none of this is eligible for addition to the RAB (refer to Statement 2b) or considered to be financial outperformance (refer to Statement 3). The Regulators' determination for control period 5 includes an updated view of costs and outputs to be delivered based on an assumption of when the required rolling stock will be available.
- d. Kings Cross – the primary objective of this programme was to provide station capacity to accommodate the passenger demand at peak times and to provide a new Western concourse to incorporate retail and leisure facilities. As set out in the above table Network Rail was able to deliver this project for slightly less than the Regulator assumed thus generating some financial outperformance (refer to Statement 5).
- e. Birmingham New Street gateway project – in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies – notably Birmingham City Council. At the end of control period 4 the anticipated final cost of the project exceeds the currently agreed regulatory funding. A proportion of these additional costs (based on the percentage of actual/ planned expenditure on the total programme) has been used to reduce the net efficient underspend added to the RAB (refer to Statement 2b) and consequently reduces the financial outperformance reported by Network Rail (refer to Statement 5). The above table shows that expenditure in control period 4 was lower than the Regulator assumed and this has been due to changes in the project schedule.
- f. East Coast Mainline overhead line enhancements – this project aimed to improve the infrastructure on the East Coast mainline to reduce the risk of severe delays arising from overhead line failures. The outputs of this project were achieved at a lower cost than the Regulator anticipated in its PR08 determination. These efficiencies resulted in financial outperformance (as reported in Statement 5) and RAB additions (refer to Statement 2b)

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- g. St Pancras – Sheffield line speed improvements – this package of works encompassing track, signalling and junction remodelling was designed to reduce journey times by around 10 minutes. The savings illustrated in the above table were largely the result of activity being deferred until later control periods. Various asset improvement works require implementation before the timetable change can be implemented. As these savings have not arisen from more efficient delivery of the programme outputs this saving does not manifest itself in financial outperformance (as reported in Statement 5) or an addition to the RAB under the terms of the Regulatory Accounting Guidelines.
- h. Station Security – this project was largely around preventing vehicle incursions at the portfolio of managed stations. The above table shows an underspend in the control period compared to the Regulators' assumption which arose from a combination of deferral of work to control period 5 (relating to specific projects at five stations that have been delayed to coincide with other projects to minimise passenger disruption) and also from efficient delivery of the projects compared to the Regulator's expectation. These delivery efficiencies contributed to financial outperformance (as reported in Statement 5) and RAB additions (refer to Statement 2b), whereas the deferral of work has a neutral impact on financial outperformance and the RAB.
- i. Reading – this programme relates to improvements to the network in the Reading area to help support the introduction of the Crossrail initiative. At the end of control period 4 the anticipated final cost of the project is lower than the regulatory funding. A proportion of this saving (based on the percentage of actual/ planned expenditure on the total programme) has been included as efficient underspend added to the RAB (refer to Statement 2b) and contributes to the financial outperformance reported by Network Rail (refer to Statement 5).
- j. Platform Lengthening – Southern – this programme aimed to allow longer trains on key routes in the south east part of the network. The underspend in the control period compared to the regulatory assumptions arises from the deferral of some elements of the programme into control period 5 (these deferrals emerged after the publication of the control period 5 determination and so are not included in that document) and efficiency savings. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- k. Southern Capacity – this programme was designed to provide the necessary passenger capacity at Gatwick Airport, East Croydon and Seven Sisters stations as well as improving the operational robustness at Gatwick Airport. Control period expenditure was lower than the Regulator expected which was a combination of work deferred into control period 5 (which were identified after the ORR published their PR13 determination and related to parts of the Gatwick and East Croydon schemes) and efficiencies made by Network Rail in the delivery of the required outputs of the programme. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- l. ECML improvements – the ORR set out a number of projects in their determination to deliver passenger kilometre specifications, London capacity specifications and facilitate operational plans. Expenditure in the control period is lower than the PR08 assumed. This is mostly due to deferrals of activity into future control periods (which were identified after the ORR published their PR13 determination) but there are also some significant savings that Network Rail have secured in the project delivery. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- m. Power supply upgrade – this is a package of works in the south east which are necessary to support the Train lengthening – Southern programme and also encompasses the regenerative braking power project. As the above table shows Network Rail has spent more than the adjusted PR08 assumption across the control period and so there is financial underperformance on this programme in control period 4. A number of parts of this programme have been deferred into control period 5 (the funding available in control period 5 is set out in the Regulator's determination, although further deferrals have occurred since the PR13 was finalised) and the entire costs of delivering the outputs of this programme are now expected to exceed the funding set out in the PR08. Consequently, these inefficiencies are included in the calculation of financial outperformance (as reported in Statement 5) and limit the RAB additions arising from outperformance on other projects in line with the guidance presented in the ORR's Regulatory Accounting Guidelines (refer to Statement 2b).
- n. Western Improvements Programme – this includes defined schemes such as Barry-Cardiff Queen Street corridor, Cotswold line redoubling and Westerleigh Junction to Barnt Green linespeed improvements. Expenditure in the control period was lower than the regulatory allowance which was due to efficiencies made by Network Rail. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- o. WCML Committed Schemes – this is a package of various specified smaller schemes aimed at improving capacity on this part of the network. Less than half of the original PR08 funding has been utilised in the control period, mainly due to deferral of major projects such as the Stafford bypass and the power supply upgrade, much of which has been reflected in the Adjusted PR08 figure in the above table. There have also been some efficiencies as Network Rail has been able to identify and deliver the schemes for a lower amount than the Regulator assumed. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- p. Midlands Improvement Programme – this programme covered Bromsgrove electrification, Redditch branch enhancements and linespeed improvements on the Wrexham to London Marylebone route as well as some additional train lengthening schemes. Spend was less than the regulatory allowance mainly because the delivery of the outputs of the project have been delayed until control period 5. This is mostly reflected in the control period 5 PR13 determination and the above Adjusted PR08 column. However, since the publication of the PR13 there has been additional deferral of projects and so costs to next control period. In addition, some efficiencies have been made on the programme. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- q. Northern Urban Centres – Leeds – this project is designed to deliver the infrastructure necessary to support the operational plans in the Yorkshire area. There has been minimal expenditure in the control period compared to the regulatory assumption. Most of the outputs associated with this scheme have not been delivered and so the saving does not manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- r. Northern Urban Centres – Manchester – this project is designed to deliver the infrastructure necessary to support the operational plans in the Manchester area. There has been limited expenditure in the control period compared to the regulatory assumption. Most of the outputs associated with this scheme have not been delivered and so the saving does not manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.
- s. Trans Pennine Express linespeed improvements – control period expenditure is lower than the PR08 assumed as work has been deferred until future control periods to align delivery of this programme to the timescales of the Northern Hub scheme. The saving compared to the PR08 does not, therefore, manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.
- t. Paisley Corridor Improvements – the original scope of this scheme was reduced following discussions with the relevant stakeholders. The project was originally labelled GARL (Glasgow Airport Rail Link) but following the change in the required outputs the programme has been renamed with the revised funding allowance reflected in the above table. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- u. Unallocated overheads – this relates to general costs associated with the delivery of PR08 projects that cannot be practically assigned to individual projects. This net overspend offsets some of the underspends delivered on other projects.

(11) Non-PR08 RAB-funded enhancement expenditure in the year was more than two-and-a-half times higher than the previous year. Non-PR08 RAB-funded expenditure is broken down into the following categories:

- a. Government sponsored – increases in some of the larger programmes such as Electrification, Crossrail and EGIP as well as expenditure on some new initiatives such as East West railway and other programmes that have been included as part of the control period 5 settlement. In addition, there has been a reclassification of activity from PR08 to non-PR08 for most of the costs of the Reading depot project, as the additional scope of this project is being funded through the ORR Investment Framework.
- b. Network Rail sponsored (income generating) – the increase compared to the prior year largely arose from the acquisition of freight sites.
- c. Schemes promoted by third parties – this category has a total negative value because, as noted above, the income generated from projects completed earlier in the control period has been removed this year, reducing the amounts logged up to the RAB. In addition, some elements of the Evergreen 3 programme delivered in previous years were paid for directly by the customer this year, reducing the amount Network Rail could add to the RAB and increasing the Third party funded (PAYG) category.

(12) PAYG expenditure was 15 per cent less than the previous year. This was mainly due to higher amounts of expenditure on the Birmingham Gateway project in 2012/13 partly offset by the additional funding received from the DfT this year compared to the previous year for projects previously recognised as PR08 funded activity.

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- (13) Outperformance expenditure includes £61m in the year and £80m in the control period on Network Rail's level crossing risk reduction programme. This fund is used to accelerate delivery of safety improvements or closure at the highest priority level crossings and demonstrates Network Rail's drive towards a safety culture. This programme is not funded by the regulatory allowances but from Network Rail's financial outperformance achieved during the control period (as set out in Statement 5).

Statement 4: GB Net debt and financial ratios

In £m cash prices unless stated otherwise

	2013/14				Cumulative	
	Actual	PR08	Difference	Actual 2012/13	PR08	Difference
A) Reconciliation of net debt GB at 31 March 2014						
Opening net debt	28,930	30,335	1,405	20,890	21,267	377
Income						
Fixed charges	(1,464)	(1,454)	10	(5,154)	(5,138)	16
Total variable charges (including EC4T)	(772)	(732)	40	(3,620)	(3,490)	130
Grant income	(3,780)	(3,777)	3	(19,277)	(19,355)	(78)
Total other single till income	(725)	(772)	(47)	(3,344)	(3,392)	(48)
Other income	-	-	-	-	-	-
Total income	(6,741)	(6,735)	6	(31,395)	(31,375)	20
Expenditure						
Controllable operating expenditure	1,071	787	(284)	4,756	4,041	(715)
Non-controllable operating expenditure	546	468	(78)	2,316	2,093	(223)
Maintenance expenditure	952	1,142	190	5,118	5,761	643
Schedule 4&8	364	145	(219)	1,127	829	(298)
Renewals expenditure	3,701	2,221	(1,480)	13,454	12,560	(894)
Enhancement expenditure	2,962	1,443	(1,519)	9,701	8,913	(788)
Total expenditure	9,596	6,206	(3,390)	36,472	34,197	(2,275)
Financing						
Interest expenditure on nominal debt - FIM covered	658	698	40	2,895	3,497	602
Interest expenditure on IL debt - FIM covered	232	232	-	952	901	(51)
Accretion on IL debt - FIM covered	298	354	56	2,316	1,425	(891)
Expenditure on the FIM	240	215	(25)	1,018	984	(34)
Total interest costs	1,428	1,499	71	7,181	6,807	(374)
Interest expenditure on nominal debt - unsupported	-	212	212	-	603	603
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,428	1,711	283	7,181	7,410	229
Corporation tax	(5)	10	15	7	26	19
Rebates	142	-	(142)	329	-	(329)
Other¹	(1,050)	1	1,051	(1,184)	3	1,187
Movement in net debt	3,370	1,193	(2,177)	11,410	10,261	(1,149)
Closing net debt	32,300	31,528	(772)	32,300	31,528	(772)

	2009/10	2010/11	2011/12	2012/13	2013/14
(1) Other					
Movements in workings capital	(2)	(134)	(214)	(49)	(1,050)
Other	265	-	-	-	-

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Analysis of movement in net debt

	2010/11	2011/12	2012/13	2013/14
Increase in net debt	1,657	2,013	2,441	3,370
Represented by:				
New debt issued	1,782	5,489	4,751	5,104
Accretion on index-linked debt	657	521	485	298
Debt repaid	(1,926)	(2,545)	(1,204)	(3,975)
Decrease/ (increase) in net cash balances	1,155	(1,193)	(1,353)	2,123
Other	(11)	(259)	(238)	(180)
Increase in net debt	1,657	2,013	2,441	3,370

C) Analysis of net debt

	2010/11		2011/12		2012/13		2013/14	
	£m	% of borrow-ing	£m	% of borrow-ing	£m	% of borrow-ing	£m	% of borrow-ing
Nominal borrowings (GBP)	7,551	30%	8,019	28%	8,595	27%	9,000	27%
Nominal borrowings (foreign currency denominated)	4,322	17%	5,635	20%	7,235	22%	7,174	22%
Capital nominal borrowings	11,873	47%	13,654	48%	15,830	49%	16,174	49%
Index-linked borrowings (GBP)	13,248	53%	14,686	52%	16,258	51%	17,161	51%
Total regulatory borrowings	25,121	100%	28,340	100%	32,088	100%	33,335	100%
Uncleared cash items	(35)		(47)		-		-	
Obligations under finance leases	2		1		-		-	
Net cash balances	(612)		(1,805)		(3,158)		(1,035)	
Regulatory net debt as at 31 March	24,476		26,489		28,930		32,300	

D) Derivative financial instruments

	2010/11	2011/12	2012/13	2013/14
Derivative financial instruments assets	680	673	953	648
Derivative financial instruments liabilities	(947)	(1,208)	(631)	(664)
Net (liability)/ asset value of derivative financial instruments	(267)	(535)	322	(16)

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

E) Financial Ratios

	2009/10	2010/11	2011/12	2012/13	2013/14
Adjusted interest cover ratio (AICR)	1.77	1.93	2.15	2.04	1.75
FFO/interest	3.50	3.82	3.97	3.81	3.37
Net debt/RAB (gearing)	63.9%	63.4%	62.5%	64.4%	64.5%
FFO/debt	13.9%	13.6%	14.2%	13.3%	11.8%
RCF/debt	9.9%	10.0%	10.7%	9.8%	8.3%

F) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%	5.2%	4.8%	4.7%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%	1.4%
FIM fee in %	0.8%	0.8%	0.8%	0.8%	0.8%
Average interest costs on nominal debt - unsupported	n/a	n/a	n/a	n/a	n/a
Average interest costs on IL debt (excl. accretion) - unsupported	n/a	n/a	n/a	n/a	n/a

Notes:

- (1) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (2) PR08 represents original regulatory assessment of income and expenditure and does not reflect agreed adjustments to the determination that have emerged after the PR08 publication as this would necessitate reclassification of financing and debt assumptions in the PR08.

Comments:

- (1) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part E) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2014. As the Statement presents the reconciliation of net debt all figures are reported in cash prices.
- (2) The above statement shows that the closing debt for the control period is £0.8bn (2 per cent) higher than that assumed by the Regulator. This was mostly due to:
 - a. Additional enhancement expenditure – as shown in Statement 3 Network Rail delivered projects worth more than £3bn (2013/14 prices) that the Regulator did not include in their funding settlement. This was partly offset by deferral of activity on some PR08 projects to future control periods (notably Thameslink)
 - b. Additional renewals expenditure – as noted in Statement 9a, Network Rail delivered projects worth £0.7bn that were not included in the scope of the Regulator's determination, such as ORBIS, the construction of the National Centre at Milton Keynes and vehicle fleet purchases. In addition, there was additional delivery of structures works of £0.3bn which were authorised by government
 - c. Rebates – Network Rail paid out £0.3bn of rebates during the control period to allow stakeholders (mostly government, but also train operating companies, freight operating companies and open access operators) to share in Network Rail's financial outperformance

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- d. Opening debt – the above items are partly offset by the difference in opening net debt at the start of the control period compared to the Regulator's assumption of £0.3bn
 - e. Other – this is mostly due to working capital movements
- (3) Controllable opex is shown in more detail in Statement 7a.
- (4) Non-controllable opex is shown in more detail in Statement 7a.
- (5) Maintenance is shown in more detail in Statement 8a.
- (6) Schedule 4 & 8 is shown in more detail in Statement 10.
- (7) Renewals expenditure is shown in more detail in Statement 9a.
- (8) Enhancements expenditure is shown in more detail in Statement 3.
- (9) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.
- (10) Financing – the PR08 figures included in the above table for financing costs use the inflation rate assumptions at the time the PR08 was prepared to uplift 2008/09 prices to a cash basis. However, the outturn was different. By 2013/14, cumulative inflation since 2006/07 has been 25% compared to the ORR assumption of 20% meaning that the comparable 2013/14 PR08 interest allowance in the above table is understated. Although closing debt was higher than the Regulator's assumption, average debt during the control period was lower, contributing to the lower interest costs in the control period. Interest costs in the control period also benefitted from favourable commercial settlements. Significant variances to the prior year are set out below:
 - a. Interest expenditure on nominal debt – FIM covered was approximately 13 per cent higher than the previous year. Increases in the average levels of nominal debt and financial investments of approximately 14 per cent (as illustrated in part C) of this statement) were partly offset by a decrease in the interest rates associated with this level of debt of 10 basis points (as noted in part C) of this statement)
 - b. Interest expenditure on IL debt – average index-linked debt has increased by 8 per cent compared to the previous year. A corresponding increase in interest costs compared to 2012/13 would result in interest costs of £226m which is slightly less than the £232m included in the table above
 - c. Expenditure on the FIM – this has increased by 10 per cent compared to the previous year reflecting an increase in average net debt of approximately 10 per cent. The 0.8 per cent rate payable under the FIM to the Department for Transport remains the same as 2012/13

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- d. Accretion on IL debt – FIM covered was lower than in 2012/13 despite a higher volume of this type of debt (as shown in part C) of this Statement). This was mostly due to realigning the accretion calculations to be consistent with the method employed by Network Rail's agent banks and other financial institutions

(11) During the year rebates were paid to the Department for Transport (£110m) and Transport Scotland (£32m) to allow them to share in Network Rail's financial outperformance. Financial outperformance occurs when Network Rail saves more than expected under the regulatory settlement. Over the control period £313m was returned to government (£250m to the Department for Transport and £63m to Transport Scotland). The value of Rebates for the control period also includes amounts paid to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This system was designed to incentivise collaborative working practices between Network Rail and its track customers by allowing them to benefit from the financial outperformance achieved by Network Rail.

(12) Other – the value in 2009/10 includes a £265m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.

(13) Financial ratios – ratios are defined as follows:

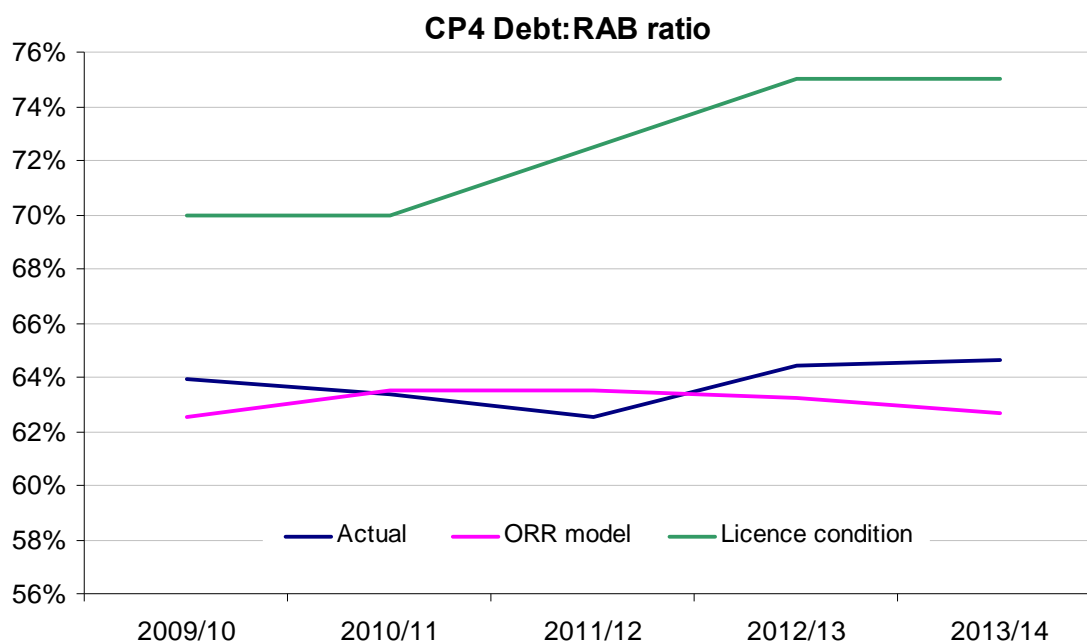
Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt***/RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF****/debt	FFO less net interest divided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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

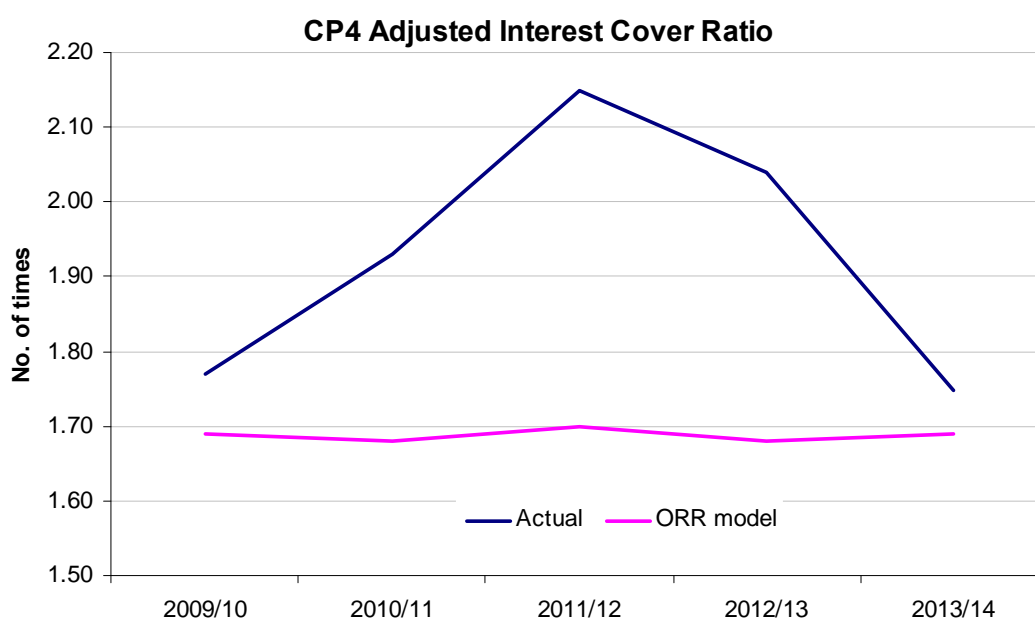
(14) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 64.6 per cent (2013: 64.4 per cent). The ORR imposes regulatory limits on the debt to RAB gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the limit in the revised Licence condition of 75.0 per cent for the current year. Network Rail has managed to stay comfortably within the ORR Licence condition throughout the control period as shown below:

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise



(15) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including as assumption for steady state renewals. Network Rail's AICR for the year was 1.75 (2013: 2.04), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as the business generated operational revenue 75 per cent greater than the cash required to pay net financing costs. Network Rail has been able to outperform the Regulator's AICR assumption (as set out in the PR08) throughout the control period as the below chart shows, largely as a result of lower cash interest costs over the control period. The lower AICR figure in 2013/14 reflects the impact of one-off operating costs in the year (refer to Statement 7a).



Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (16) Part B) of this statement shows the increase in net debt by movement in types of net debt. This shows that during the year Network Rail raised £5.1bn of bonds under the Debt Issuance Programme (DIP). Network Rail's ability to raise debt in difficult market conditions is a reflection of the existence of the financial government guarantee and of the market's confidence in the ability of Network Rail to service its debt. Approximately £4bn of the new debt issued was used to refinance existing borrowings.
- (17) Part C) of this statement shows the proportion of Network Rail's nominal debt that is denominated in foreign currencies and GBP, as well as the level of index-linked debt which is in line with the previous year. As both the RAB and franchised track access and grant income are index-linked a natural hedge exists between the RAB and debt and income and interest expense. The valuation of debt denominated in foreign currency is disclosed in line with the Regulatory Accounting Guidelines (i.e. the debt is valued at its swapped value) and will, therefore, be different to the valuation in the Network Rail Limited's statutory accounts. A reconciliation between net debt as defined by the Regulatory Accounting Guidelines and under IFRS accounting rules is set out in Appendix D.
- (18) Network Rail issues debt in a range of currencies and in floating and fixed interest rates to obtain the best commercial deal available. To minimise risk and provide greater certainty over cashflow, interest rate and foreign currency exchange rate hedges are entered into. The book value of these financial instruments presented in Network Rail Limited's statutory accounts are reported in Part D) of this statement.

Statement 5: GB Financial performance statement

In £m 2013/14 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(4,397)	(4,794)	(11,267)	(211)	(20,669)
Adjustments in DP09 in 2009/10 prices	-	150	(693)	(63)	(606)
Inflation adjustment from 2009/10 to nominal prices	(456)	(520)	(1,402)	(12)	(2,390)
Adjusted DP09 in nominal prices	(4,853)	(5,164)	(13,362)	(286)	(23,665)
Actuals in nominal prices	(4,816)	(5,056)	(13,088)	(264)	(23,224)
(Under)/ out performance in nominal prices	37	108	274	22	441

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	27,933	(8,022)	(2,253)	(6,048)	-		11,610	(9,059)
Adjustments in DP09 in 2009/10 prices	755	1,841	-	2,306	-		4,902	4,296
Inflation adjustment from 2009/10 to nominal prices	1,840	(723)	(258)	(717)	-		142	(2,248)
Adjusted DP09 in nominal prices	30,528	(6,904)	(2,511)	(4,459)	-		16,654	(7,011)
Actuals in nominal prices	30,057	(6,769)	(2,316)	(3,735)	12		17,249	(5,975)
(Under)/ out performance in nominal prices	(471)	135	195	724	12	(52)	543	984

Statement 5: GB Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

2013/14

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(783)	(845)	(1,883)	-	(3,511)
Adjustments in DP09 in 2009/10 prices	(14)	32	(1,268)	(80)	(1,330)
Inflation adjustment from 2009/10 to nominal prices	(144)	(191)	(610)	3	(942)
Adjusted DP09 in nominal prices	(941)	(1,004)	(3,761)	(77)	(5,783)
Actuals in nominal prices	(1,100)	(942)	(3,637)	(55)	(5,734)
(Under)/ out performance in nominal prices	(159)	62	124	22	49

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	5,607	(1,493)	(520)	(1,481)	-	-	2,113	(1,398)
Adjustments in DP09 in 2009/10 prices	157	51	-	2,024	-	-	2,232	902
Inflation adjustment from 2009/10 to nominal prices	827	(266)	(97)	(576)	-	-	(112)	(1,054)
Adjusted DP09 in nominal prices	6,591	(1,708)	(617)	(33)	-	-	4,233	(1,550)
Actuals in nominal prices	6,304	(1,573)	(547)	(11)	-	-	4,173	(1,561)
(Under)/ out performance in nominal prices	(287)	135	70	22	-	-	(60)	(11)

Note:

- (1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period. FVA is measured on a "cash basis" and so does not include accretion on debt instruments.

Comments

- (1) FVA is reported on a 'gross' basis and excludes assessment of the impact of missing regulatory outputs. Network Rail recognises that a number of regulatory outputs for the control period have been missed which need to be considered when assessing Network Rail's performance in the control period. FVA includes the £53m for the financial penalty imposed for missed outputs for long distance train performance and a further £24m committed to improving train performance and the passenger experience. This is because these items result in a cash payment from (see below).

Statement 5: GB Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

- (2) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's Delivery Plan 2009. This is adjusted so that the total financial outperformance can be measured against the Regulator's PR08 determination.
- (3) The above table shows that Network Rail have generated more outperformance in total than expected in the Regulator's determination both in the current year and in the control period.
- (4) In the current year the FVA generated was mainly due to non-controllable costs savings and from recognition of enhancements and renewals efficiencies. With the conclusion of the control period it was possible to undertake a full assessment of Network Rail's delivery of capital projects. These were largely offset by higher operating costs (including the provision for ORR financial penalty) and lower income (mostly due to Schedule 8 costs).
- (5) Operating costs financial underperformance in the year eliminates much of the outperformance included in the previous years' Regulatory Financial Statements. The current year includes a financial penalty of £53m levied by the ORR due to inadequate train performance and a further £24m committed to improving train performance and the passenger experience. The Regulator has decided to charge Network Rail £1.5m for every 0.1% shortfall in the long distance PPM result compared to the ORR regulatory target (which is modified for factors perceived to be outside of Network Rail's influence). This penalty is over and above the Schedule 8 costs incurred by Network Rail under the regulators' performance regime (which resulted in financial underperformance of over £450m). Operating costs this year also included the costs for management re-organisation and relocation of certain corporate functions to the National Centre in Milton Keynes as well as provisions for commercial claims in property which have all caused financial underperformance in the year. Operating costs have contributed £37m of financial outperformance in the control period which represents less than 1 per cent saving against the post-efficient Delivery Plan 2009 baseline.
- (6) Maintenance costs for the control period were lower than assumed in the Delivery Plan 2009. This was achieved through a variety of contributory initiatives. These include the re-organisation of maintenance staff to provide common terms & conditions to allow for more efficient rostering and work planning, reducing overtime costs and allowing greater operational flexibility. Additional training and resource enabled more tasks to be taken in-house, reducing contractor and consultant costs. Financial outperformance of £108m in the control period represents savings of 2 per cent compared with the post-efficient Delivery Plan 2009 baseline.
- (7) Renewal outperformance represents the net position across the asset portfolio. There has been outperformance on a number of asset categories (such as operational property, signalling and track switches & crossings) which has offset higher than expected costs in areas such as plain line track unit costs and discretionary projects, including £70m invested by Network Rail in 2013/14 in initiatives to improve train performance in control period 5 and beyond. Deferral of activity into future control periods is not treated as financial outperformance.
- (8) Income in 2013/14 and the control period was lower than expected mainly as a result of higher Schedule 8 costs. The Delivery Plan 2009 assumed £nil performance income/ costs compared to costs of over £450m across the control period. Income was also adversely impacted by lower property sales as Network Rail has disposed of less of the railway network than planned and by lower EC4T income (which is offset by EC4T savings reported in non-controllable opex). Income also includes the recognition of amounts Network Rail is entitled to under the opex memorandum process (except volume incentives which are explicitly excluded). Income for the control period also includes savings on Schedule 4 costs mostly arising from better planning of possessions.

Statement 5: GB Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

- (9) Enhancements portfolio has been delivered for less than the Delivery Plan 2009 assumed. Savings have been realised across a variety of programmes, such as Reading, ECML improvements and WCML Committed Schemes. This has been offset by additional expenditure in other projects. There were notable overspends on Birmingham New Street and Power Supply Upgrade. Deferral of activity into future control periods is not treated as financial outperformance.
- (10) Non-controllable opex savings in the year arose largely from lower traction electricity costs. Traction electricity costs are dictated by the market price for electricity. The estimated costs in the Delivery Plan 2009 were markedly different to the actual prices. Most of the traction electricity costs are passed onto the train and freight operators. Therefore, lower costs also results in lower financial performance in Income. Non-controllable costs also include higher than planned expenditure on Cumulo rates. Cumulo rates are the business rates that Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the Delivery Plan 2009 had been published. The Delivery Plan 2009 assumed a lower level of rates than the Valuation Office Agency decided and so the higher expense in the year and the total control period gives rise to financial underperformance. The Regulator recognises the limited control Network Rail has over Cumulo costs in control period 4 and so any difference between actual costs and those assumed in the determination are refunded to Network Rail through the Opex memorandum, which is included as part of income.
- (11) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt during the control period have also contributed to lower interest expenses. Interest outperformance in the control period also benefits from the favourable settlement of a commercial claim (£60m) and gains on the re-structuring of finance leases (£25m). Interest only assesses over/under performance on nominal debt and does not include accretion on debt instruments.

Statement 6a: GB Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference	Actual
Fixed charges	1,464	1,454	10	5,464	5,448	16	1,138
Variable charges							
Variable usage charge	166	153	13	799	751	48	164
Traction electricity charges	267	234	33	1,228	1,102	126	242
Electrification asset usage charge	10	9	1	49	44	5	10
Capacity charge	183	191	(8)	901	942	(41)	182
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	146	145	1	892	893	(1)	153
Schedule 8 net income	-	-	-	6	-	6	-
Total gross variable charge income	772	732	40	3,875	3,732	143	751
Total franchised track access income	2,236	2,186	50	9,339	9,180	159	1889
Grant income	3,780	3,777	3	20,643	20,718	(75)	4,105
Total franchised track access and grant income	6,016	5,963	53	29,982	29,898	84	5,994
Other single till income							
Property income	149	213	(64)	706	840	(134)	148
Freight income	58	94	(36)	275	443	(168)	55
Open access income	24	23	1	125	113	12	24
Stations income	411	376	35	2,050	1,883	167	409
Depots income	69	58	11	334	290	44	68
Other	14	8	6	80	46	34	15
Total other single till income	725	772	(47)	3,570	3,615	(45)	719
Total income	6,741	6,735	6	33,552	33,513	39	6,713

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable by Network Rail under the Opex memorandum (including amounts earned through the volume incentive). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include rebates paid to stakeholders. These are disclosed separately in Statement 1.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR08. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

Statement 6a: GB Analysis of income continued

In £m 2013/14 prices unless stated otherwise

- (2) Fixed charges – for 2013/14 these are higher than the PR08 as Network Rail has worked with train operating companies to provide additional facilities and services which generate extra revenue for Network Rail. This increase has partly been offset by payments made to train operating companies under alliancing arrangements. Income is 29 per cent higher than the previous year, which is consistent with the increase in the Regulator's income model. The PR08 settlement assumed increases in Fixed charges at the expense of Grant income as the control period progressed. Fixed charges for the control period were marginally higher than the Regulator assumed. Unfavourable movements on actual inflation (used to calculate fees paid by train operators) compared to assumed inflation (used to uplift the Regulator's determination from 2006/07 prices) and payments made to partners under the terms of alliancing contracts have been more than offset by additional revenue earned by offering services to operators over and above those set out in the Regulator's determination.
- (3) Variable usage charge – this was higher than the PR08 and the previous year as Network Rail provided an increased number of paths to franchised train operators to run more services for the travelling public. Better planning of capital and maintenance works also helped increase the availability of the network for operators to run trains. Variable usage charges for the control period were nearly £50m higher than the PR08 as Network Rail provided more train paths to operators resulting in marginal income from track access.
- (4) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over these. In this respect Traction electricity charges should be considered non-controllable income just as traction electricity charges payable are classified as non-controllable opex in the PR08. Income is £25m higher than 2012/13 due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. Electricity traction costs were £15m higher compared to the previous year, reflecting this increase in market rates. Both Traction electricity income and costs were £33m higher than the PR08 determination for 2013/14. Income earned through Traction electricity charges for control period 4 were 11 per cent higher than the Regulator's determination with a corresponding 12 per cent underperformance in electricity costs (as shown in Statement 7a).
- (5) Capacity charge – although Capacity charges were in line with the previous year they remain below the level assumed by the PR08 for the current year and the control period. This is because the PR08 did not take into account the impact of the new weekend discounts offered to train operating companies. The Delivery Plan 2009 targets, Network Rail's response to the PR08, reflected these rates and so the result is nearly £50m lower over the course of the control period. ORR has indicated that Network Rail will be funded for this shortfall in control period 5 through the Opex memorandum (refer to Statement 10). Adjusting for the impact of the Opex memorandum, Capacity charges for the control period were higher than the Regulator expected as Network Rail provided additional train paths to operators, allowing them to provide additional services to the travelling public.
- (6) Grant income – grant income was lower than the previous year but in line with the Regulator's determination, with compensating amounts receivable through Fixed charges. Grant income in the control period was less than 0.5 per cent different to the PR08 determination which resulted in Network Rail underperforming the determination by £75m. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November RPI index for each year during 2009-14), and the rates used to calculate the grant payments which are a year in arrears (being the November RPI index for each year during 2008-13).

Statement 6a: GB Analysis of income continued

In £m 2013/14 prices unless stated otherwise

- (7) Property income – although income is consistent with the previous year it is lower than the PR08 for the current year and the control period. The PR08 assumed that additional income would arise in the final two years of the control period from developments at Victoria and Euston stations. In the response to the ORR's PR08 draft determination (published June 2008) Network Rail stated that these developments (and hence the income) were unlikely to materialise in control period 4. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments through the Opex memorandum in recognition of this (refer to Statement 10). Lower property income has also arisen due to different expectations about market conditions when the PR08 was prepared, compared to the current difficult economic environment which has adversely affected the demand for rental properties. Property income for the control period is 16 per cent lower than the determination assumed. Over half of this variance can be explained by the delayed Victoria and Euston stations developments, with the remainder being a combination of over-optimistic assumptions about the market in the PR08 and Network Rail disposing of a smaller proportion of the rail network than the Regulator anticipated. Property income also benefitted from the favourable settlement of a large commercial claim during the control period.
- (8) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have had to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £66m during the control period, nearly 70% more than the Regulator assumed which is the result of Network Rail's problems in achieving train performance targets in the control period.
- (9) Open access income – income is in line with the PR08 assumption and the prior year. Total open access income for the control period is 11 per cent higher than the Regulator assumed as Network Rail offered additional train paths to operators to enable additional services to be provided for the travelling public.
- (10) Stations income – income is in line with the previous year but 9 per cent higher than the PR08 for both the current year and the control period. Around half of the control period outperformance of £167m arises from additional investment income as operators paid supplementary charges for incremental facilities provided by Network Rail at the stations leased to train operators. The remaining variance largely arises from additional income generated Network Rail's portfolio of train stations that are directly managed (rather than leased to train operators). Income generated from retail offerings at managed stations has outperformed the Regulator's assumptions despite the challenging conditions that landlords of retail properties endured throughout the control period, which has witnessed increased retail unit vacancies on the high street and the demise of a number of high street retailers. Network Rail has been able to offer high quality facilities and services that the public are willing to pay a premium for.
- (11) Depots income – income is higher than the PR08 for the current year and the control period mostly due to additional investment framework income received in the year as operators paid incremental charges for additional facilities provided by Network Rail.
- (12) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). Income was in line with previous year. Total Other income for the control period is favourable to the PR08 assumption mostly due to additional ancillary services offered by Network Rail, such as litter clearance at stations and insurance cover for train operators.

Statement 6b: GB Analysis of other single till income

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference	Actual
Property Income							
Property sales income	41	90	(49)	124	233	(109)	40
Other property income	108	123	(15)	582	607	(25)	108
Total property income	149	213	(64)	706	840	(134)	148
Freight income							
Freight variable usage charge	56	76	(20)	259	366	(107)	52
Freight EC4T	5	8	(3)	29	32	(3)	5
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	5	6	(1)	21	26	(5)	4
Freight performance payments							
net income	(16)	(8)	(8)	(66)	(39)	(27)	(14)
Coal spillage charge (incl investment charge)	2	3	(1)	4	15	(11)	(9)
Freight only line charge	5	6	(1)	19	28	(9)	14
Freight access agreement and other income	1	3	(2)	9	15	(6)	3
Total Freight income	58	94	(36)	275	443	(168)	55
Open access income							
Variable usage charge income	3	5	(2)	17	27	(10)	3
Other open access charges	21	18	3	108	86	22	21
Total open access income	24	23	1	125	113	12	24
Stations income							
Managed stations income							
Retail income	83	70	13	415	361	54	83
Advertising income	21	20	1	103	104	(1)	23
Concessions income	22	16	6	97	68	29	20
Long term charge	22	23	(1)	123	116	7	22
Qualifying expenditure	44	51	(7)	232	254	(22)	45
Other	5	-	5	22	-	22	5
Total	197	180	17	992	903	89	198
Franchised stations income							
Long term charge	143	149	(6)	734	744	(10)	142
Stations lease income	46	47	(1)	242	236	6	46
Other	25	-	25	82	-	82	23
Total	214	196	18	1,058	980	78	211
Total stations income	411	376	35	2,050	1,883	167	409
Depots income	69	58	11	334	290	44	68
Other income	14	8	6	80	46	34	15
Total other single till income	725	772	(47)	3,570	3,615	(45)	719

Statement 6b: GB Analysis of other single till income continued

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Memo:							
Investment framework income							
Stations related	24	-	24	90	-	90	23
Depot related	7	-	7	24	-	24	5
Track related	13	-	13	33	-	33	13
Total investment framework income	44	-	44	147	-	147	41

Memo item:

	2009/10	2010/11	2011/12	2012/13	2013/14	Cumulative
Hypothecated gains in year	-	26	20	-	-	46

Comments:

- (1) Property sales income – 2013/14 income is in line with the previous year but £48m lower than the PR08. The Regulator's determination assumed a lower level of property sales early in the control period but that economic conditions would be more conducive to maximising returns from property disposals as the control period progressed. The PR08 also assumed that property sales income would increase in the final two years of the control period from developments at Victoria and Euston stations. In the response to the ORR's PR08 draft determination (published June 2008) Network Rail stated that these developments (and hence the income) were unlikely to materialise in control period 4. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments through the Opex memorandum in recognition of this (refer to Statement 10). Property sales income for the control period is significantly lower than the Regulator assumed which is mostly due to the delayed developments at Euston and Victoria stations. The nature of property disposals means that there can be a conflict between obtaining the best value from a commercial perspective and selling sufficient properties to achieve targets. The Regulator's targets could have been accomplished but this would have meant disposing of parts of the railway network at sub-optimum prices, forestalling the disposal of these properties at a more favourable price in the future.
- (2) Other property income – this covers amounts earned through rental charges levied on Network Rail's commercial estate. Income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult economic environment which has adversely affected the demand for rental properties. Other property income is in line with the previous year.
- (3) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £66m during the control period, nearly 70% more than the Regulator assumed which reflects Network Rail's problems achieving train performance targets in the control period. Compensation payments were also affected by external factors such as cable theft, which is thought to have caused over £7m of payments under the compensation framework.

Statement 6b: GB Analysis of other single till income continued

In £m 2013/14 prices unless stated otherwise

- (4) Open access income – income is in line with the PR08 assumption and the prior year. Total open access income for the control period is 11 per cent higher than the Regulator assumed as Network Rail was able to offer additional train paths to operators to provide extra services for the travelling public.
- (5) Stations income – income is in line with the previous year but 9 per cent higher than the PR08 for both the current year and the control period. Around half of the control period outperformance of £167m was due to additional investment income as operators paid supplementary charges for incremental facilities provided by Network Rail at the stations leased to train operators. The remaining variance largely arises from additional income generated by Network Rail's portfolio of train stations that are managed directly (rather than leased to train operators). Income generated from retail offerings at managed stations has outperformed the Regulator's assumptions despite the challenging conditions that landlords of retail properties endured throughout the control period, which has witnessed increased retail unit vacancies on the high street and the demise of a number of high street retailers. Network Rail has been able to offer high quality facilities and services that the public are willing to pay a premium for.
- (6) Depots income – income is higher than the PR08 for the current year and the control period mostly due to additional investment framework income received in the year as operators paid incremental charges for additional facilities provided by Network Rail.
- (7) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). Income was in line with previous year. Total Other income for the control period is favourable to the PR08 assumption mostly due to additional ancillary services offered by Network Rail such as litter clearance at stations and insurance cover for train operators.

Statement 6c: GB Analysis of income by operator

In £m 2013/14 prices unless stated otherwise

Franchised Train Operating Companies

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Arriva Trains Wales						
Variable Usage Charges	3.5	3.1	3.2	3.3	3.3	16.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	4.6	4.1	4.1	4.2	4.2	21.2
Fixed Charges	52.4	52.3	49.8	53.7	72.4	280.6
Station Long Term Charges	-	9.9	9.9	10.0	10.0	39.8
Station QX	-	0.4	0.3	0.4	0.4	1.5
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	1.4	1.8	1.5	1.6	6.3
Total income	60.5	71.2	69.1	73.1	91.9	365.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
C2C						
Variable Usage Charges	2.4	1.8	1.8	1.8	1.9	9.7
Traction Electricity Charges	9.3	7.4	6.1	6.0	6.4	35.2
Electrification Asset Usage Charges	-	0.3	0.3	0.4	0.2	1.2
Capacity Charges	1.1	0.8	0.8	0.9	0.9	4.5
Fixed Charges	10.5	10.8	10.2	10.9	14.5	56.9
Station Long Term Charges	1.1	4.2	4.2	4.9	4.2	18.6
Station QX	-	0.2	0.2	0.1	0.2	0.7
Station Facility Charge	-	-	0.1	-	-	0.1
Other Charges	-	1.2	1.1	1.4	1.2	4.9
Total income	24.4	26.7	24.8	26.4	29.5	131.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Chiltern						
Variable Usage Charges	1.1	1.3	1.5	1.8	0.4	6.1
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	2.4	2.0	2.3	2.4	2.4	11.5
Fixed Charges	18.7	19.0	24.8	30.3	35.4	128.2
Station Long Term Charges	-	4.6	4.6	4.7	4.7	18.6
Station QX	-	-	-	-	-	-
Station Facility Charge	-	-	0.1	-	-	0.1
Other Charges	-	0.1	0.1	0.1	0.1	0.4
Total income	22.2	27.0	33.4	39.3	43.0	164.9

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Cross Country						
Variable Usage Charges	10.4	8.3	9.4	9.4	9.3	46.8
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	12.8	12.3	12.7	12.8	12.9	63.5
Fixed Charges	72.1	73.6	70.2	75.1	101.3	392.3
Station Long Term Charges	1.1	0.7	0.6	0.6	0.6	3.6
Station QX	2.4	2.6	2.7	2.7	2.5	12.9
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total income	98.8	97.5	95.6	100.6	126.6	519.1

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
East Coast Main Line Rail						
Variable Usage Charges	22.1	20.0	21.3	22.0	21.9	107.3
Traction Electricity Charges	24.4	18.5	17.2	19.0	20.9	100.0
Electrification Asset Usage Charges	1.1	1.2	1.2	1.2	1.3	6.0
Capacity Charges	5.8	5.5	6.0	6.3	6.2	29.8
Fixed Charges	49.0	48.3	47.7	50.1	66.9	262.0
Station Long Term Charges	1.1	8.1	12.0	8.5	8.8	38.5
Station QX	2.4	2.2	2.1	2.4	2.4	11.5
Station Facility Charge	-	-	0.5	-	0.1	0.6
Other Charges	-	2.7	5.9	2.9	3.2	14.7
Total income	105.9	106.5	113.9	112.4	131.7	570.4

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
East Midlands						
Variable Usage Charges	7.0	7.1	7.2	7.4	7.5	36.2
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	16.4	16.5	16.5	16.6	16.8	82.8
Fixed Charges	45.3	46.5	44.3	47.5	63.9	247.5
Station Long Term Charges	-	10.3	9.1	8.4	8.7	36.5
Station QX	-	0.1	0.2	0.3	0.3	0.9
Station Facility Charge	-	0.3	0.5	1.1	1.3	3.2
Other Charges	-	6.2	4.2	6.3	6.0	22.7
Total income	68.7	87.0	82.0	87.6	104.5	429.8

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
First Capital Connect						
Variable Usage Charges	5.8	5.7	6.0	6.4	6.4	30.3
Traction Electricity Charges	31.5	25.4	20.8	24.1	27.3	129.1
Electrification Asset Usage Charges	1.1	0.9	1.0	1.1	1.2	5.3
Capacity Charges	14.1	14.1	14.3	14.7	14.8	72.0
Fixed Charges	30.2	29.8	27.5	29.1	39.0	155.6
Station Long Term Charges	2.4	12.6	30.3	12.0	13.8	71.1
Station QX	4.6	3.8	3.8	4.3	4.0	20.5
Station Facility Charge	-	0.4	0.9	0.7	0.8	2.8
Other Charges	-	1.8	9.3	2.7	2.7	16.5
Total income	89.7	94.5	113.9	95.1	110.0	503.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
First Great Western						
Variable Usage Charges	17.5	17.8	16.9	17.5	17.7	87.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	29.3	31.0	29.2	29.6	29.3	148.4
Fixed Charges	79.1	80.2	76.4	81.5	109.2	426.4
Station Long Term Charges	1.1	18.9	12.6	19.3	19.6	71.5
Station QX	2.4	2.6	2.3	2.3	2.2	11.8
Station Facility Charge	-	-	0.2	-	1.9	2.1
Other Charges	1.1	8.7	4.2	-	9.0	23.0
Total income	130.5	159.2	141.8	150.2	188.9	770.6

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Greater Anglia⁽⁵⁾						
Variable Usage Charges	-	-	1.8	11.0	11.3	24.1
Traction Electricity Charges	-	-	5.6	25.7	29.1	60.4
Electrification Asset Usage Charges	-	-	0.2	1.6	1.7	3.5
Capacity Charges	-	-	1.5	10.4	10.5	22.4
Fixed Charges	-	-	7.7	53.9	72.3	133.9
Station Long Term Charges	-	-	-	-	2.9	2.9
Station QX	-	-	-	-	2.6	2.6
Station Facility Charge	-	-	0.2	1.1	1.7	3.0
Other Charges	-	-	0.6	3.9	4.0	8.5
Total income	-	-	17.6	107.6	136.1	261.3

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
London Midland						
Variable Usage Charges	4.7	4.6	4.6	4.9	5.1	23.9
Traction Electricity Charges	22.1	13.1	8.9	12.6	14.2	70.9
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7	0.7	3.7
Capacity Charges	15.1	14.1	14.1	14.6	15.3	73.2
Fixed Charges	33.9	34.7	33.1	35.4	47.7	184.8
Station Long Term Charges	1.1	11.5	11.3	16.0	10.2	50.1
Station QX	4.6	4.5	4.3	4.5	3.2	21.1
Station Facility Charge	-	0.2	0.2	-	0.2	0.6
Other Charges	-	3.1	1.7	3.0	3.0	10.8
Total income	82.6	86.4	78.8	91.7	99.6	439.1

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
London Overground						
Variable Usage Charges	-	0.5	0.8	1.0	0.4	2.7
Traction Electricity Charges	2.4	2.7	2.7	2.9	3.5	14.2
Electrification Asset Usage Charges	-	-	0.1	0.1	0.1	0.3
Capacity Charges	-	0.2	0.2	0.3	1.1	1.8
Fixed Charges	4.6	4.5	4.3	4.6	6.3	24.3
Station Long Term Charges	-	2.3	3.0	3.8	2.7	11.8
Station QX	-	0.2	0.3	0.4	-	0.9
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.5	0.2	-	0.5	1.2
Total income	7.0	10.9	11.6	13.1	14.6	57.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Merseyrail						
Variable Usage Charges	1.1	0.6	0.6	0.6	0.7	3.6
Traction Electricity Charges	5.9	5.0	4.0	3.9	5.8	24.6
Electrification Asset Usage Charges	-	0.1	0.1	0.1	0.1	0.4
Capacity Charges	-	-	0.1	0.1	0.1	0.3
Fixed Charges	8.1	8.8	8.4	8.1	12.1	45.5
Station Long Term Charges	-	5.1	3.0	2.9	4.7	15.7
Station QX	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.6	0.4	0.4	0.7	2.1
Total income	15.1	20.2	16.6	16.1	24.2	92.2

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Northern						
Variable Usage Charges	4.6	4.0	4.1	4.2	4.3	21.2
Traction Electricity Charges	7.0	4.9	3.7	4.0	4.8	24.4
Electrification Asset Usage Charges	-	0.2	0.2	0.2	0.2	0.8
Capacity Charges	4.6	5.0	5.0	5.2	5.3	25.1
Fixed Charges	90.9	91.0	86.6	93.5	126.2	488.2
Station Long Term Charges	1.1	16.5	9.7	16.7	15.8	59.8
Station QX	2.4	2.9	2.9	2.8	2.8	13.8
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	4.1	5.5	3.1	4.2	16.9
Total income	110.6	128.6	117.7	129.7	163.6	650.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
National Express East Anglia						
Variable Usage Charges	10.5	9.4	8.9	-	-	28.8
Traction Electricity Charges	31.5	30.1	19.5	-	-	81.1
Electrification Asset Usage Charges	1.1	1.4	1.2	-	-	3.7
Capacity Charges	10.5	10.0	8.3	-	-	28.8
Fixed Charges	53.6	53.5	42.7	-	-	149.8
Station Long Term Charges	1.1	17.2	18.5	-	-	36.8
Station QX	2.4	2.6	2.4	-	-	7.4
Station Facility Charge	-	0.3	4.9	-	-	5.2
Other Charges	-	4.0	2.2	-	-	6.2
Total income	110.7	128.5	108.6	-	-	347.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Scotrail						
Variable Usage Charges	8.1	6.7	7.8	8.3	9.2	40.1
Traction Electricity Charges	12.7	9.9	11.4	12.0	11.1	57.1
Electrification Asset Usage Charges	-	0.4	0.5	0.6	0.7	2.2
Capacity Charges	2.4	2.4	2.8	2.9	3.2	13.7
Fixed Charges	130.4	129.4	139.1	280.5	322.2	1,001.6
Station Long Term Charges	2.4	19.0	11.0	19.4	18.0	69.8
Station QX	3.5	3.5	3.5	3.5	3.4	17.4
Station Facility Charge	-	-	-	-	0.6	0.6
Other Charges	-	4.8	2.6	5.9	5.4	18.7
Total income	159.5	176.1	178.7	333.1	373.8	1,221.2

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
South Eastern						
Variable Usage Charges	8.1	7.7	8.3	8.4	8.3	40.8
Traction Electricity Charges	40.7	35.9	28.2	29.5	33.7	168.0
Electrification Asset Usage Charges	1.1	0.5	0.6	0.6	0.6	3.4
Capacity Charges	11.6	11.3	11.8	11.5	11.5	57.7
Fixed Charges	60.5	61.9	58.8	63.1	85.0	329.3
Station Long Term Charges	3.5	26.2	25.7	36.0	24.4	115.8
Station QX	5.9	5.0	5.3	5.3	4.4	25.9
Station Facility Charge	-	0.1	0.1	-	0.1	0.3
Other Charges	-	7.9	4.1	7.5	7.3	26.8
Total income	131.4	156.5	142.9	161.9	175.3	768.0

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
South West Trains						
Variable Usage Charges	14.1	13.5	13.2	12.5	11.9	65.2
Traction Electricity Charges	50.0	41.2	30.1	26.2	36.2	183.7
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7	0.7	3.7
Capacity Charges	7.0	6.2	6.2	6.2	6.2	31.8
Fixed Charges	65.2	65.8	62.0	66.2	88.8	348.0
Station Long Term Charges	1.1	23.6	28.9	35.4	20.5	109.5
Station QX	3.5	3.6	3.5	3.5	3.5	17.6
Station Facility Charge	4.7	6.6	7.0	9.5	7.9	35.7
Other Charges	1.1	7.2	3.6	-	6.8	18.7
Total income	147.8	168.3	155.1	160.2	182.5	813.9

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Southern						
Variable Usage Charges	9.4	8.5	8.3	8.6	8.7	43.5
Traction Electricity Charges	37.2	36.8	26.2	27.6	32.9	160.7
Electrification Asset Usage Charges	1.1	0.5	0.5	0.6	0.6	3.3
Capacity Charges	16.4	15.4	15.2	15.3	15.1	77.4
Fixed Charges	47.6	48.2	45.4	48.3	65.1	254.6
Station Long Term Charges	2.4	16.5	19.0	24.0	15.1	77.0
Station QX	4.6	5.7	4.9	3.3	0.5	19.0
Station Facility Charge	-	0.2	-	-	0.6	0.8
Other Charges	-	1.6	1.1	1.2	1.5	5.4
Total income	118.7	133.4	120.6	128.9	140.1	641.7

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Transpennine						
Variable Usage Charges	4.6	4.3	4.6	4.5	4.6	22.6
Traction Electricity Charges	-	-	-	-	0.1	0.1
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	2.3	2.8	2.8	2.8	2.8	13.5
Fixed Charges	29.2	29.7	28.1	29.9	40.2	157.1
Station Long Term Charges	1.1	4.1	2.6	4.2	3.8	15.8
Station QX	2.4	1.3	1.4	1.5	1.4	8.0
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	0.1	0.1
Total income	39.6	42.2	39.5	42.9	53.0	217.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Virgin West Coast						
Variable Usage Charges	27.9	27.5	27.9	30.8	32.4	146.5
Traction Electricity Charges	39.5	35.0	29.0	35.9	40.1	179.5
Electrification Asset Usage Charges	2.3	2.0	2.0	2.2	2.3	10.8
Capacity Charges	24.4	24.1	24.1	24.3	24.1	121.0
Fixed Charges	74.5	75.1	70.7	76.6	101.9	398.8
Station Long Term Charges	2.4	10.4	6.4	10.6	9.2	39.0
Station QX	4.6	5.1	4.9	5.1	3.6	23.3
Station Facility Charge	4.6	7.0	4.3	-	7.7	23.6
Other Charges	-	0.1	-	-	0.1	0.2
Total income	180.2	186.3	169.3	185.5	221.4	942.7

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Consolidated Non-Franchised Train Operators						
Variable Usage Charges	3.5	4.0	3.1	3.5	3.0	17.1
Traction Electricity Charges	-	3.1	3.0	3.4	3.7	13.2
Electrification Asset Usage Charges	3.5	-	-	-	-	3.5
Capacity Charges	-	0.7	0.7	-	0.9	2.3
Fixed Charges	18.8	17.3	21.6	17.6	18.1	93.4
Station Long Term Charges	-	-	0.7	1.8	1.2	3.7
Station QX	-	-	0.1	0.1	0.1	0.3
Station Facility Charge	-	-	-	-	-	-
Performance regime	1.3	(2.4)	(1.7)	(2.5)	(2.8)	(8.1)
Other Charges	1.1	(1.5)	0.5	-	-	0.1
Total income	28.2	21.2	28.0	23.9	24.2	125.5

Statement 6c: GB Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Consolidated Freight Operating Companies						
Variable Usage Charges	53.5	46.0	51.1	52.8	55.7	259.1
Traction Electricity Charges	6.9	5.8	5.0	4.7	5.3	27.7
Capacity Charges	4.6	4.0	4.2	4.3	4.5	21.6
Performance Regime	(10.5)	(13.7)	(12.4)	(14.6)	(16.0)	(67.2)
Freight Only Line & Coal Spillage Charge	2.4	4.9	5.6	5.2	7.0	25.1
Freight Connection Agreements and Other Income	3.5	0.6	0.6	2.8	1.2	8.7
Total income	60.4	47.6	54.1	55.2	57.7	275.0

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the above tables do not include any payments made to operators under the Efficiency Benefit Sharing Mechanism. Total payments under this mechanism are reported in Statement 1.
- (3) No PR08 comparison has been provided by the ORR for this schedule.
- (4) Station long term charges in 2009/10 did not include income from franchised stations.
- (5) During 2011/12 the train operator franchise for Anglia changed from National Express East Anglia to Greater Anglia. Therefore, the results for National Express East Anglia are lower for 2011/12 compared to 2009/10 and 2010/11. For Greater Anglia income is higher in 2012/13 than 2011/12 as it includes a full year's worth of income.

Statement 7a: GB Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽¹⁾	Cumulative Adjusted PR08	Difference
Controllable operating expenditure						
Signaller staff costs	230	183	(47)	1,205	991	(214)
Non-signaller staff costs	707	523	(184)	3,459	2,836	(623)
Staff incentives	56	-	(56)	282	-	(282)
Other employee related costs	151	58	(93)	601	313	(288)
Pensions	73	64	(9)	420	395	(25)
Consultants/contractors/agency (incl ORR financial penalty)	237	89	(148)	729	484	(245)
Insurance and claims	39	70	31	284	382	98
Accommodation, office, property	125	101	(24)	584	546	(38)
Information management	57	42	(15)	264	228	(36)
Other	186	157	(29)	1,085	847	(238)
Total gross controllable operating expenditure	1,861	1,287	(574)	8,913	7,022	(1,891)
Less:						
Other operating income	(144)	(95)	49	(842)	(512)	330
Own work capitalised	(646)	(399)	247	(2,983)	(2,164)	819
Total controllable operating expenditure	1,071	793	(278)	5,088	4,346	(742)
Non-controllable operating expenditure						
Traction electricity costs	286	252	(34)	1,331	1,186	(145)
Cumulo rates	153	114	(39)	591	538	(53)
British Transport Police costs	78	71	(7)	399	355	(44)
Rail Safety and Standards Board levy	9	10	1	47	50	3
ORR fees (incl. ORR Licence fee and the railway safety levy)	20	20	-	104	100	(4)
Other (i.e. CIRAS fees)	-	1	1	-	3	3
Total non-controllable operating expenditure	546	468	(78)	2,472	2,232	(240)
Total operating expenditure	1,617	1,261	(356)	7,560	6,578	(982)

Note:

- (1) The actual 2009/10 pensions and staff incentives have been restated to reflect a reclassification of costs introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentives figures of £21m and a decrease in pension expense of £49m. These costs are now reported within Maintenance costs.

Comments:

- (1) Network Rail's costs are categorised between Operating costs (as shown in the above table) and Maintenance costs (refer to Statement 8a). Operating costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2014.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (2) Signaller staff costs – costs are 4 per cent lower than the previous year mostly due to a reduction in signaller headcount, which decreased by nearly 3 per cent. Also, the comparative year included higher overtime costs due to the extra usage of the network caused by the London Olympics and Paralympics in summer 2012. Reducing signaller staff numbers is the main strategy for reducing Signaller staff costs. Savings from headcount reduction more than offset management's decision to award signallers above inflation pay rises. Expenses for the year are significantly higher than the Regulator's determination assumed. The main way Network Rail can reduce costs in line with the 16.4% that the PR08 assumed by 2013/14 would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base. However, initiating such wide ranging plans takes time. Signaller staff costs for the control period are 22 per cent higher than the determination assumed as a result of the above inflation pay rises granted to staff and the difficulty in achieving the efficiencies contained in the determination.
- (3) Non-signaller staff costs – these costs are 6 per cent higher than the prior year mainly due to a 4 per cent increase in non-signaller staff headcount within Operations & Customer Services. These additional resources were used to deliver capital projects meaning that although staff costs increased, there was a corresponding increase in Own work capitalised. Over the control period expenditure on Non-signaller staff costs was over 20 per cent higher than the Regulator assumed. There was a number of contributory factors to this such as: increased delivery of capital projects in 2013/14 (there is a corresponding increase in Own work capitalised to reflect this); organisational changes such as the enhanced scope of Asset Management and devolution which have reconfigured Network Rail into a more agile organisation. Network Rail's Delivery Plan 2009 expected that Non-signaller staff costs would not achieve the Regulator's target.
- (4) Staff incentives – these costs are lower than the previous year as achievement against the incentive targets was lower this year, reflecting the difficulty Network Rail had in achieving performance targets. Like many organisations, Network Rail uses staff incentives as a key part of employee compensation in order to motivate and retain staff. The Regulator's determination assumed there would be no staff incentives payable in the year or control period, despite ORR having a licence condition (LC16) that requires Network Rail to have a management incentive plan for executive directors and other employees.
- (5) Other employee related costs – costs for the year are £66m higher than last year. This is mostly due to higher redundancy costs in 2013/14 as Network Rail reorganises its workforce to meet the financial challenges set out in the PR13 determination. Costs are higher than the PR08 regulatory settlement for both the current year and the control period. The in year variance is largely due to the redundancy costs noted above, and additional training and travel costs (partly associated with the move to the National Centre Milton Keynes). The higher costs for the control period are also driven the additional redundancy costs, as well as higher training and travel costs than the PR08 assumed.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (6) Pensions – costs are in line with the previous year but are higher than the Regulator's determination for the current year and the control period. This was largely due to Network Rail not reducing headcount and staff costs as much as the Regulator expected (as noted above).
- (7) Consultants/contractors/agency (incl ORR financial penalty) – these costs are £94m higher than the previous year. This is mostly due to the financial penalty levied by ORR for the missed performance targets on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. Network Rail has provided for the full value of the fine. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period, parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, other external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £53m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, there were some additional costs recognised for the delivery of capital projects (matched by a credit in Own work capitalised). Finally, there were some extra costs relating to the various safety initiatives Network Rail is undertaking to help reinforce safety as a central objective of the company. Costs in 2013/14 and the control period are higher than the Regulator's allowance largely due to the ORR financial penalty noted above, higher agency staff costs, and additional consultants' costs to deliver capital works. These are partly offset by the higher than expected Own work capitalised in the above table.
- (8) Insurance and claims – costs are significantly lower than the PR08 for both the current year and the control period. This is mainly due to Network Rail changing its insurance arrangements so that in exchange for lower insurance premiums higher excess amounts were payable for each claim. This meant that a number of incidents previously covered by Network Rail's insurance arrangements now fell outside its scope (being below the excess), resulting in additional costs elsewhere, notably Schedule 8 (refer to Statement 10), Schedule 4, Renewals and Maintenance. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to replace damaged infrastructure.
- (9) Accommodation, office, property – expenses in the current year are £23m higher than 2012/13 and £24m higher than the Regulator's assumption. This increase is largely due to dilapidation provisions incurred in 2013/14. Expenditure in the control period was 7 per cent higher than the regulatory allowance, mostly due to the dilapidations provisions recognised in 2013/14.

Statement 7a: GB Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (10) Information management – costs in the year are in line with the previous year but significantly higher than the PR08 assumed, continuing the trend seen in previous years. The Regulator's determination assumed that Network Rail would be able to reduce its Information management costs by 16.4% over the course of the control period. However, Network Rail has had to spend more on the IT infrastructure required to support the company. This is partly due to additional renewals projects being delivered through Information management staff resulting in higher costs in this category offset by higher amounts in Own work capitalised

(11)

Breakdown of Other controllable operating costs:

	2012/13	2013/14
Private Party Costs	35	10
Utilities	49	55
Other Plant	12	1
Telecoms Costs	42	36
Media Services / Campaigns	13	11
Vehicle Costs	7	(5)
Post / Printing / Reprographics	6	6
Railhead treatment	21	31
Other	34	41
Total	219	186

- o Private party costs – these are lower than last year as less work has been completed for third parties compared to the previous year. Income relating to this is included within other operating income in the above table which has consequently decreased by a corresponding amount.
 - o Utilities – this reflects higher utility prices in the market.
 - o Other plant – these costs are borne by the National Delivery Services function. This department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This recharge mechanism aims to incentivise the correct behaviour throughout the business as well as improve the quality of the services that the National Delivery Services (NDS) function provides.
 - o Vehicles costs – represents additional costs recovered from the other parts of the business for the notional inter-departmental charges for the use of company vehicles.
 - o Railhead treatment – costs increased by £10m this year as Network Rail invested more to improve train performance.
 - o Other – increase compared to prior year is largely due to additional expenditure on HLOS Performance and Seven Day Railway projects (£7m increase in 2013/14) as suitable projects were identified and approved for completion.
- Other costs incurred in the year were significantly higher than the PR08 assumed. Notable variances include the expenditure on Railhead treatment that was not included in the PR08, expenditure on HLOS Performance and Seven Day Railway projects (which was included in Maintenance in the PR08), additional rail disposal (the costs of which are recognised in Other costs) and higher utility costs (largely due to above inflation increases market prices for utilities during the control period whereas the determination assumed real price decreases of over 16 per cent). During control period 4 Network Rail incurred significantly higher costs in this classification. This was mostly due to: expenditure on private party activity (recovered through Other operating income); HLOS Performance and Seven Day Railway projects; higher utilities costs (recovered through Other operating income) and higher Telecoms costs (recovered through Other operating income).

Statement 7a: GB Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (12) Other operating income – Other operating income was over 50 per cent higher than the Regulator assumed for 2013/14. Contributing factors include additional managed stations income (larger car parks and more left luggage), higher recovery of utility costs (resulting from higher utility costs noted above in Other costs), private sidings income and disposal of rail (which contributed to the higher costs in Other). Over the control period Network Rail generated £330m more Other operating income than the Regulator assumed. This was largely a result of: additional private party works (which resulted in a corresponding increase in Other operating costs); additional recovery of other costs for works and services undertaken for third parties (such as private sidings recoveries and telecoms) which resulted in higher operating costs in other categories; and identifying additional commercial opportunities (such as increased managed stations income and additional litter clearance income). Income in the year was £22m lower than the previous year. This was mostly the result of lower private party works (also reflected in Other above).
- (13) Own work capitalised – this amount is higher than the PR08 for the current year and for the control period. The PR08 assumed both a lower level of costs and a lower level of costs recovered to capital projects than Network Rail's Delivery Plan 2009. More capital works have been delivered compared to the Regulator's assumption. This has resulted in higher costs in the categories within gross controllable operating expenditure in the above table. The level of Own work capitalised is approximately 11 per cent higher than the previous year. This is largely due to higher internal delivery of capital projects. As shown in Statement 3 and Statement 9a, capital expenditure was significantly higher this year than in 2012/13.
- (14) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs and traction electricity costs are driven by the prevailing market rate for these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in 2013/14 are £33m higher than the PR08 due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also £33m higher than the Regulator assumed. Total costs for the control period are 12 per cent higher than the PR08 determination due to higher market electricity prices than assumed. This is substantially negated by an 11 per cent favourable variance within electrification income (refer to Statement 6a).
- (15) Cumulo rates – these are 13 per cent higher than the previous year. Cumulo rates are the business rates Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. The Regulator's determination assumed a lower level of rates than the Valuation Office Agency determined and so the expense in the year and the control period is higher than the PR08. As Cumulo rates are set by a third party and outside Network Rail's influence they are considered to be non-controllable. The Regulator recognises this and any difference between actual costs and those assumed in the determination are included in the Opex memorandum (refer to Statement 10).

Statement 7a: GB Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (16) British Transport Police – costs in the current year are 6 per cent higher than the previous year mostly due to additional costs for a dedicated cable theft team within the British Transport Police. Cable theft has been a significant blight on performance (both train and freight) during the control period and cost nearly £50m in performance penalties (as well as significant costs for repair and replacement of cables) so Network Rail has invested in additional resource to combat these risks. Costs for the control period and the current year are noticeably more than the Regulator's assumption. This was partly due to the extra cost of battling cable theft and also from Network Rail's unwillingness to cut British Transport Police services which could endanger the travelling public.
- (17) ORR fees – under the terms of its network licence, Network Rail pays the Regulator an annual licence fee. The amounts paid to the Regulator over the control period were higher than the Regulator assumed when setting the PR08. Network Rail is compensated for this additional cost through the Opex memorandum (refer to Statement 10).

Statement 7b: GB Analysis of operating expenditure by activity

In £m 2013/14 prices unless stated otherwise

	CP3			CP4				
	2006/07	2007/08	2008/09	2009/10 ⁽¹⁾	2010/11	2011/12	2012/13	2013/14
Controllable operating expenditure								
Human resources								
Functional support	20	25	27	25	29	29	28	28
Training	31	34	34	32	32	22	21	21
Graduates	4	4	2	2	1	2	2	2
Apprenticeships	7	7	11	11	9	7	7	7
Other	12	10	8	13	12	13	8	4
Total	74	80	82	83	83	73	66	62
Information management								
Support	4	4	13	15	10	10	7	8
Projects	12	8	3	8	5	5	4	2
Business Operations	69	66	61	61	68	55	52	49
Other	4	1	-	7	1	-	-	-
Total	89	79	77	91	84	70	63	59
Operations & customer services signalling	228	242	249	253	241	241	238	230
Operations & customer services non-signalling								
MOMS Staff Costs	34	36	36	35	33	32	31	25
Control staff costs	39	36	41	41	39	37	36	39
Planning & Performance Staff Costs	20	23	21	21	15	25	24	29
Managed Stations Staff Costs	18	17	18	21	22	20	20	17
Operations Management Staff Costs	23	22	16	13	13	20	20	23
Other	85	72	61	120	126	93	103	112
Total operations & customer services costs	447	448	442	504	489	468	472	475
Finance	22	20	21	27	34	35	31	21
Contracts & procurement	6	6	-	-	-	-	10	9
Strategic sourcing	-	-	49	47	51	46	-	-
Planning & development	7	11	11	16	14	13	14	13
Safety & sustainable development	4	2	2	2	3	4	11	15
Other corporate services	35	39	41	42	44	34	50	51
Commercial property	50	48	56	55	96	89	88	101
Infrastructure Projects	(8)	(3)	(9)	(2)	-	18	(31)	(56)
Route asset management	-	-	-	-	-	-	11	-
Route Services	-	-	-	-	-	-	-	13
Asset management & Engineering/Asset heads	45	47	47	63	56	104	144	139
National delivery service	9	16	14	14	12	17	7	3
Group/central								
Pensions	151	150	139	5	2	2	-	1
Insurance	139	92	60	71	70	4	81	36
Redundancy/reorganisation costs	9	1	34	28	15	47	5	68
Staff incentives	42	67	64	5	5	3	(8)	5
Corporate costs capitalised	(42)	(41)	(56)	(7)	-	(2)	-	-
Maintenance/Opex reclassification	(26)	(43)	(72)	-	-	-	-	-
Wayleaves/West Coast feeder stations	29	28	27	1	-	-	-	-
Accommodation & Support recharges	-	-	-	-	(70)	(66)	(31)	(3)
Fleet vehicle recharges	-	-	-	-	-	(8)	(18)	(20)
ORR financial penalty for missed regulatory outputs	-	-	-	-	-	-	-	77
Other	18	9	31	40	22	7	(1)	2
Total controllable operating expenditure	1,100	1,056	1,060	1,085	1,010	958	964	1,071

Statement 7b: GB Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the control period 4 data. These changes have resulted in a decrease in the cumulative staff incentives figures of £21m and a decrease in pension expense of £49m. These costs are now reported within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. In 2013/14 further reductions arose from staff being de-centralised and moved to routes (the corresponding costs are now shown in 'Route Services'). Human resources expenses in the current and previous year include £2m per year relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (4) Information management – costs are £4m lower than the previous year. This is mostly due to an 8 per cent decrease in the average number of staff compared to the prior year, with the majority of the decrease arising in agency staff, who are generally more expensive. This saving is partly offset by lower levels of costs capitalised due to a reduced number of staff working on the delivery of capex projects compared to the previous year.
- (5) Finance – the £4m decrease in costs in 2012/13 compared to 2011/12 is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category). In the current year there was a further transfer of costs from Finance to 'Route Services' as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service.
- (6) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £40m being switched that year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed to reflect the additional activities undertaken by this department (including a re-working of the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation. Costs in the current year are higher than the previous year due to additional corporate initiatives being undertaken to reinforce the message that workforce safety is a key priority for the company.

Statement 7b: GB Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

- (8) Other corporate services – costs are in line with the previous year. In 2012/13 a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies resulted in increased costs within Other corporate services.
- (9) Commercial property – costs are noticeably higher than the previous year due to amounts provided for commercial claims. Excluding these one-off costs, there has been a decrease of approximately 10 per cent. This has largely arisen from savings in lease and occupancy costs as operations migrate to the National Centre at Milton Keynes as well as higher left luggage and car park income as Network Rail offers additional services at stations to the public.
- (10) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. From 2012/13, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower costs in Infrastructure Projects) and higher costs in Group (as shown in the 'Accommodation & Support recharges line).
- (11) Route asset management – this was reported separately for the first time in the 2012/13 Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies. Costs in the current year were lower than the previous year as most of the activities undertaken these functions this year are either capital in nature and so fully capitalised (refer to Statement 7d) or relate to Maintenance activity (refer to Statement 8a).
- (12) Route services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. In the current year, the costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'.
- (13) Asset management & Engineering/Asset heads – the variance to control period 3 is due to an increased headcount in these functions as a result of reorganising the business. The additional costs in 2012/13 compared to 2011/12 relate to the transfer of utility management from Strategic sourcing/ Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to the Route asset management category. Costs in the current year are in line with the previous year with the slight decrease being due to a higher proportion of capitalised costs and activity classified as Maintenance costs compared to the previous year.

Statement 7b: GB Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

- (14) National Delivery Services – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.
- (15) Pensions – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by their function (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance (refer to Statement 8a).
- (16) Insurance – costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.
- (17) Redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies.
- (18) Staff incentives – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by the function/budget holder where that individual works (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance. Staff incentive costs are higher than the prior year as 2012/13 benefitted from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- (19) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in control period 4 as noted above.
- (20) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the reclassification of costs between Maintenance and Controllable opex to mirror the funding arrangements in control period 3. No such adjustment is required in the current control period.

Statement 7b: GB Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

- (21) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in control period 4.
- (22) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects resulting in a reduction in gross Infrastructure Project costs.
- (23) Fleet vehicle recharges – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals – plant & machinery in the control period (refer to Statement 9a), the cost savings generated over the life of the vehicles mean that purchasing the assets provides an overall economic benefit to the railway. The increase in this credit in the current year reflects the benefit of a full year of credits arising from purchases made in 2012/13.
- (24) ORR financial penalty for missed outputs – in May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, and asset failures all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £53m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14.

Statement 7c: GB Insurance reconciliation

In £m 2013/14 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	141	141	14	106	-	75	-	44	-	58
Terrorism	-	-	4	-	-	-	5	6	-	10
Employer's liability	-	-	1	2	-	2	-	5	-	6
Stations & depots property damage, terrorism & public liability	-	-	3	2	-	2	-	5	-	8
Motor	-	-	1	2	1	1	-	3	-	4
Construction all risks	1	1	1	1	-	1	-	1	-	2
Other cover ⁽²⁾	-	-	2	-	-	-	-	1	-	3
Investment return	-	-	-	-	-	-	-	-	-	-
Total	142	142	26	113	1	81	5	65	-	91

Statement 7c: GB Insurance reconciliation continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) Total insurance cost: $A + B + C = D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7d: GB Cost of own work capitalised

In £m 2013/14 prices unless stated otherwise

	Gross costs	2013/14 Own costs recovered (2)	Net costs	Gross costs	Cumulative (1) Own costs recovered (2)	Net costs
Controllable operating expenditure						
Human resources	65	(3)	62	375	(8)	367
Information management	85	(26)	59	507	(140)	367
Operations & customer services	576	(101)	475	2,699	(291)	2,408
Finance	21	-	21	150	(2)	148
Contracts & procurement	12	(3)	9	173	(10)	163
Planning & development	22	(9)	13	127	(57)	70
Safety & sustainable development	15	-	15	35	-	35
Other corporate services	56	(5)	51	232	(11)	221
Commercial property	114	(13)	101	481	(52)	429
Infrastructure Projects	343	(399)	(56)	1,783	(1,854)	(71)
Route asset management	44	(44)	-	89	(78)	11
Route Services	14	(1)	13	14	(1)	13
Asset management & Engineering/ Asset heads	176	(37)	139	842	(336)	506
National delivery service	8	(5)	3	114	(61)	53
Group/central	166	-	166	450	(82)	368
Total controllable operating expenditure	1,717	(646)	1,071	8,071	(2,983)	5,088

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.
- (2) Own costs recovered refers to gross operating costs transferred from a particular cost centre. This usually refers to costs which are capital in nature and so charged to renewals and enhancements projects but also includes operating costs re-charged to other parts of the business.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Human resources – in 2013/14 further reductions in gross and net costs arose from staff being de-centralised and moved to routes (the corresponding costs are now shown in 'Route Services'). Human resources expenses in the current year includes £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail
- (3) Information management – gross costs are £8m lower than the previous year. This is mostly due to an 8 per cent decrease in the average number of staff compared to the prior year, with the majority of the decrease arising in agency staff, who are generally more expensive. This saving is partly offset by lower levels of costs capitalised due to a reduced number of staff working on the delivery of capex projects compared to the previous year.

Statement 7d: GB Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

- (4) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £26m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.
- (5) Finance – in the current year there was a transfer of costs from Finance to 'Route Services' as central activities were moved to under the control of Network Rail's operating routes in order to support the move towards a more devolved organisation to allow tighter control of costs and a better level of service. This resulted in a decrease in both gross and net costs, with own work capitalised remaining at £nil.
- (6) Safety & sustainable development – costs in the current year are higher than the previous year due to additional corporate initiatives being undertaken to reinforce the message that workforce safety is a key priority for the company.
- (7) Commercial property – both gross and net costs are noticeably higher than the previous year due to amounts provided for commercial claims. Excluding these one-off costs, there has been a decrease of approximately 10 per cent. This has largely arisen from savings in lease and occupancy costs as operations migrate to the National Centre at Milton Keynes as well as higher left luggage and car park income as Network Rail offers additional services at stations to the public.
- (8) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. This year, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower net costs in Infrastructure Projects) and higher costs in Group/ central. Gross costs are in line with the prior year.
- (9) Route asset management – gross costs in the current year are in line with the previous year but net costs are lower as a greater proportion of the costs incurred by these functions this year are directly related to capital activities.
- (10) Route services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. This is the first year that Route services has been disclosed as a separate function. The costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'.
- (11) Asset management & Engineering/Asset heads – net costs in the current year are in line with the previous year with the slight decrease due to a higher proportion of capitalised costs and activity classified as Maintenance costs. Gross costs are marginally (1%) higher than the previous year which reflects the additional scope of the function.

Statement 7d: GB Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

(12) National Delivery Service – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.

(13) Group – gross and net costs are significantly higher than the previous year. This is due to:

- a. £63m redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies.
- b. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £53m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14.
- c. £13m staff incentive costs are higher than the prior year as the previous year benefitted from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- d. £28m accommodation & support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects resulting in a reduction in gross Infrastructure Project costs.

These additional costs have been partly offset by insurance savings. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.

Statement 8a (1): GB Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽³⁾	Cumulative Adjusted PR08	Difference
Core Maintenance ⁽¹⁾						
Track	493	442	(51)	2,572	2,434	(138)
Structures	37	41	4	195	227	32
Signalling	160	133	(27)	898	727	(171)
Telecoms	27	62	35	233	356	123
Electrification	48	37	(11)	239	202	(37)
Plant & machinery	33	16	(17)	203	87	(116)
Operational property	-	-	-	1	-	(1)
Other	11	45	34	106	218	112
Total	809	776	(33)	4,447	4,251	(196)
Non-Core Maintenance						
Indirect costs	83	195	112	629	1,062	433
Other costs	60	170	110	425	855	430
Total	143	365	222	1,054	1,917	863
Total maintenance expenditure	952	1,141	189	5,501	6,168	667

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Comparing the PR08 allowances to the actual costs by activity does not provide a meaningful comparison as they do not compare like-for-like data. Since the PR08 was finalised, Network Rail have adapted their accounting and cost allocation in order to provide more accurate unit cost information. For example, some of the costs included as overheads (in Non-core Maintenance in the above table) in the determination are now directly attributed to individual maintenance jobs (part of Core Maintenance in the above table) in order to reflect a true picture of the underlying costs of different activities to allow management to make more informed decisions. Therefore, it is more relevant to consider Maintenance costs in totality.
- (2) Overall, Maintenance costs were 7 per cent lower than the previous year as Network Rail continued the trend during the control period of delivering Maintenance efficiencies.
- (3) Average headcount increased by over 1 per cent compared to the previous year. However, the average staff cost per head decreased slightly as new employees were recruited more cheaply than the existing staff (such as the new apprentices). The extra resource available has also allowed for a reduction in overtime costs compared to the previous year. In addition, most of this extra resource was introduced to deliver capital works, which reduces the net Maintenance costs.

Statement 8a (1): GB Summary analysis of maintenance expenditure continued

In £m 2013/14 prices unless stated otherwise

- (4) The costs of non-core Maintenance decreased by almost £25m compared to the previous year. This was mainly a result of National Delivery Services (NDS) off-charging their costs to the rest of the business to incentivize optimal decision making on cost and procurement judgements. These additional costs were recognised across the business, including extra Maintenance costs in other non-core Maintenance functions.
- (5) Once more, costs are lower than the PR08 as efficiency savings are being made at a faster rate than that assumed in the determination. This is illustrated in Statement 12 which sets out the maintenance efficiency for the year compared to the original ORR assumption in the determination.
- (6) Total control period costs were lower than assumed in the PR08 as total Maintenance efficiencies were higher than the Regulator assumed. In addition, the savings made were at a faster rate than the PR08 allowances expected allowing the savings embedded in earlier years to reap rewards across the control period. Efficiencies in the control period have been made through a combination of organisational restructuring (which has allowed for more flexible activity schedules and working practices), reducing overheads through rationalisation and amalgamation of responsibilities, improved procurement of resources and numerous small local initiatives which have combined to realise significant savings.

Statement 8a (2): GB Summary analysis of maintenance headcount by activity

	2010/11	2011/12	2012/13	2013/14
Core Maintenance				
Track	7,353	8,405	8,358	8,375
Structures	24	22	25	59
Signalling	3,898	3,733	3,312	3,305
Telecoms	666	491	593	587
Electrification	915	1,222	1,042	1,136
Plant & machinery	403	394	449	459
Operational property	330	299	291	283
Other	84	146	161	172
Total	13,673	14,712	14,231	14,376
Non-Core Maintenance				
Indirect headcount	2,959	1,181	1,390	1,437
Other headcount	-	-	-	-
Total	2,959	1,181	1,390	1,437
Total maintenance headcount	16,632	15,893	15,621	15,813

Notes:

- (1) The above data represents the headcount for functions specifically employed to deliver Maintenance activities only. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are borne by functions who undertake both Maintenance and Opex activities. Therefore, the two sets of data are not comparable.
- (2) The above data reflects full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Comment:

- (1) Average headcount has increased by around 1.2 per cent compared to the previous year. A large part of this is due to establishing a maintenance electrification organisation in line with the Electrification enhancement programme.

Statement 8b (1): GB Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU)

In £m 2013/14 prices unless stated otherwise

Actual spend in the year	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	2013/14	Total
Ashford	21	18	17	19	19	94
Bedford	28	25	18	18	16	105
Bletchley	34	29	26	26	25	140
Bristol	25	23	21	20	19	108
Brighton	27	24	22	20	22	115
Carlisle	23	18	21	26	21	109
Clapham	25	22	22	21	22	112
Cardiff	32	30	28	21	26	137
Croydon	24	21	21	18	20	104
Derby	21	18	21	21	19	100
Doncaster	17	16	23	21	21	98
Eastleigh	24	19	20	17	21	101
Edinburgh	24	23	21	18	19	105
Glasgow	17	15	14	13	13	72
Hitchin	25	22	23	21	19	110
Ipswich ⁽⁴⁾	29	27	25	25	25	131
Leeds	30	26	25	24	16	121
Lincoln	14	13	1	-	-	28
Liverpool ⁽⁵⁾	25	19	15	20	20	99
London Bridge	23	20	18	21	17	99
London Euston ⁽⁶⁾	25	21	22	25	24	117
Manchester	32	28	28	26	26	140
Motherwell	27	25	23	21	22	118
Newcastle	25	24	24	21	19	113
Orpington	22	18	16	16	17	89
Perth	14	13	12	12	13	64
Plymouth	20	16	14	15	15	80
Preston	25	21	18	17	17	98
Reading	21	20	18	18	17	94
Romford	32	30	29	30	28	149
Saltley	25	23	22	22	22	114
Sandwell & Dudley	22	21	17	18	19	97
Sheffield	15	13	18	17	16	79
Shrewsbury	12	11	14	15	15	67
Stafford	22	21	18	21	20	102
Swindon	21	18	16	16	16	87
Tottenham	34	31	29	29	32	155
Warrington ⁽⁷⁾	35	29	28	21	19	132
Woking	25	23	22	22	23	115
York	21	18	16	15	19	89
Total MDU	963	852	806	787	779	4,187
Route HQ	22	23	24	41	37	147
Other HQ	122	124	43	40	23	352
Total HQ	144	147	67	81	60	499
Centrally managed						
Structures examinations	39	38	41	41	35	194
Major items of maintenance plant	13	16	13	15	4	61
Other	156	133	96	101	74	560
Total maintenance expenditure	1,315	1,186	1,023	1,025	952	5,501

Statement 8b (1): GB Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (4) The operations of the Ipswich depot were reported as Colchester depot until the 2011/12 Regulatory financial statements.
- (5) The operations of Liverpool depot were reported as Chester depot until the 2012/13 Regulatory financial statements.
- (6) The operations of the London Euston depot were reported as Stonebridge Park depot until the 2011/12 Regulatory financial statements.
- (7) The operations of the Warrington depot were reported as Crewe depot until the 2012/13 Regulatory financial statements.

Comment:

- (1) The Lincoln depot closed during 2011/12 and so the costs reported for that year are significantly lower than in previous years. No costs are reported for 2012/13 or 2013/14.
- (2) The costs incurred at each depot can vary significantly depending on the scope of activities undertaken at each location. This can vary based on the condition of the network in that area, the type of railway infrastructure (e.g. whether it includes electrification assets), the size of the region covered and local labour market conditions. Therefore, comparing the costs of one depot to another does not provide a meaningful comparison. Instead, route management monitor the costs of the depots compared to internal targets.
- (3) Costs incurred at the depot level decreased by approximately 1 per cent compared to the prior year. This was a lower rate of saving than across the remaining Maintenance cost categories. Savings were lower as efficiencies made were largely negated by additional costs being classified within the depot part of the organisation. By allocating a higher proportion of costs to the areas responsible for incurring them it incentivises optimal decision-making by management. Statement 8b(2) shows a decrease in staff numbers at depots. However, this is mostly due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact. Notable movements in depot costs compared to the previous year are explained below:
 - a. Eastleigh – increase mostly due to additional rail grinding costs undertaken to improve performance and movement of works delivery team to route HQ (decrease in headcount shown in Statement 8b(2)). In 2012/13 the works delivery team were profit making due to some additional services provided to customers.
 - b. Leeds - this decrease was mostly due to the reclassification of some of the activities of the Knottingley section to York depot, as reflected in the movements in headcount between these two depots in Statement 8b(2).

Statement 8b (1): GB Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) continued

In £m 2013/14 prices unless stated otherwise

- c. London Bridge – increased focus on cost control at this depot in the current year – the previous year included some one-off costs which inflate the prior year comparative.
 - d. York - this increase was mostly due to the reclassification of some of the activities of the Knottingley section from Leeds depot, as reflected in the movements in headcount between these two depots in Statement 8b(2).
- (4) Route HQ costs have decreased slightly compared to the previous year as the Maintenance organisation delivers efficiencies. Statement 8b(2) shows that headcount has increased compared to the previous year. As noted above, this is largely due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact.
- (5) Other HQ costs decreased significantly compared to the previous year. This is mainly a result of increased off-charging of HQ activity to the depots to better reflect the underlying costs of operations. This should enable improved management judgements as the costs are more reflective of the economic reality of decisions made.
- (6) Centrally managed costs have decreased in the previous year mainly as a result of National Delivery Services (NDS) recharging their costs to the rest of the business (including other cost centres within Maintenance) to create a more direct link between where activity is occurring and where the corresponding cost is recognised.

Statement 8b (2): GB Analysis of maintenance headcount by MDU

	2009/10	2010/11	2011/12	2012/13	2013/14
Ashford	347	324	326	319	316
Bedford	421	428	397	317	300
Bletchley	556	510	437	366	366
Brighton	434	361	351	362	356
Bristol	391	379	366	351	358
Cardiff	410	516	489	485	428
Carlisle	381	379	404	360	375
Clapham	516	339	317	308	300
Croydon	330	304	291	297	295
Derby	429	400	388	420	358
Doncaster	346	334	454	388	388
Eastleigh	421	378	354	338	290
Edinburgh	439	404	369	350	343
Glasgow	345	314	288	281	280
Hitchin	425	393	382	356	345
Ipswich ⁽³⁾	594	483	478	441	459
Leeds	504	464	444	417	324
Lincoln	275	251	27	-	-
Liverpool ⁽⁴⁾	379	345	320	342	337
London Bridge	316	307	287	278	286
London Euston ⁽⁵⁾	387	360	372	325	321
Manchester	598	563	536	442	447
Motherwell	526	491	493	475	476
Newcastle	480	445	426	391	391
Orpington	312	279	268	262	272
Perth	267	247	239	244	234
Plymouth	389	335	317	311	310
Preston	469	436	370	302	275
Reading	360	334	317	316	323
Romford	555	506	482	468	473
Saltley	417	383	384	319	328
Sandwell and Dudley	429	402	370	321	307
Sheffield	381	274	364	329	320
Shrewsbury	296	225	243	278	272
Stafford	245	375	380	329	325
Swindon	326	293	274	260	250
Tottenham	553	497	472	449	448
Warrington ⁽⁶⁾	613	560	518	350	345
Woking	394	361	359	373	367
York	346	311	315	295	372
Total MDU	16,602	15,290	14,668	13,615	13,360
Route HQ	106	111	320	1,571	1,887
Other HQ	1,274	1,231	905	435	566
Total maintenance headcount	17,982	16,632	15,893	15,621	15,813

Statement 8b (2): GB Analysis of maintenance headcount by MDU continued

Notes:

- (1) The above data includes only full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The operations of the Ipswich depot were reported as Colchester depot until the 2011/12 Regulatory financial statements.
- (4) The operations of the Liverpool depot were reported as Chester depot until the 2012/13 Regulatory financial statements.
- (5) The operations of the London Euston depot were reported as Stonebridge Park depot until the 2011/12 Regulatory financial statements.
- (6) The operations of the Warrington depot were reported as Crewe depot until the 2012/13 Regulatory financial statements.

Comments:

- (1) The Lincoln depot closed during 2011/12 and so the average headcount reported for that year is significantly lower than in previous years. No headcount is reported for 2012/13 or 2013/14.
- (2) Average headcount has increased by around 1.2 per cent compared to the previous year. A large part of this is due to increased delivery of capital works by local maintenance teams which was almost twice as high as the previous year. Whilst not all of these costs will be internal Network Rail costs it illustrates the additional outputs being delivered by the core maintenance teams. Local works delivery teams allow for a more agile delivery of capital works, especially when the works are in response to changing conditions that allow for the provision of maintenance and capital activities at the same time. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.
- (3) Depot headcount decreased by nearly 2 per cent mostly as a result of efficiencies and re-organisations, with more of the staff delivering capital projects moving under the management of Route HQ and Other HQ. Notable movements compared with the previous year include:
 - a. Cardiff – decrease largely due to capital works delivery team being transferred from the depot to be under the stewardship of the Route HQ.
 - b. Derby – decrease mostly from reclassification of staff from depot to Route HQ. These staff are associated with the delivery of capital works.
 - c. Eastleigh – decrease largely due to capital works delivery team being transferred from the depot to be under the stewardship of the Route HQ.
 - d. Leeds - this decrease was mostly due to the reclassification of some of the activities of the Knottingley section to York depot.
 - e. Preston – decrease mostly due to the movement of some activities to the Carlisle depot. The Carlisle depot witnessed an increase in average head count but there was some overall saving as a result of rationalisation of posts arising upon integration.
 - f. York - this increase was mostly due to the reclassification of some of the activities of the Knottingley section from Leeds depot.
- (4) Increases in Route HQ and Other HQ staff numbers reflect some of the decrease in depot-based headcount and also some additional resources introduced to the company to assist with the delivery of the capital works programme.

Statement 9a: GB Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Adjusted			Cumulative Adjusted		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	1,009	736	(273)	4,039	4,143	104
Structures	821	341	(480)	2,499	2,036	(463)
Signalling	643	516	(127)	2,627	2,595	(32)
Telecoms	198	93	(105)	1,155	1,121	(34)
Electrification	178	104	(74)	571	732	161
Plant and machinery	95	59	(36)	564	485	(79)
Operational property	351	202	(149)	1,414	1,456	42
Other renewals						
Information management	101	83	(18)	477	465	(12)
Corporate offices	38	17	(21)	253	97	(156)
Discretionary investment	26	2	(24)	118	103	(15)
West Coast CP3 rollover	32	-	(32)	170	116	(54)
ORBIS	53	-	(53)	93	-	(93)
Other	156	35	(121)	312	146	(166)
Total	406	137	(269)	1,423	927	(496)
Total renewals expenditure	3,701	2,188	(1,513)	14,292	13,495	(797)

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £733m overspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (3) Track – expenditure in the year was noticeably higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. In addition, Network Rail has not been able to achieve the unit cost reduction for both Plain Line and Switches & Crossings that the PR08 assumed. Expenditure was more than 25 per cent higher than the previous year. This was mostly the result of higher non-volume expenditure including additional expenditure on fencing, drainage, national gauging programme and contractor settlement costs. Plain Line expenditure increased by over 10 per cent compared to prior year, due to an increase in volumes delivered (nearly 8 per cent) and higher unit costs. These higher unit costs arose largely from changes in contractual arrangements with suppliers which exposed Network Rail to a greater proportion of contractor costs (as actual volumes delivered were lower than planned) and a move towards more cost reflective pricing within the organisation (as part of NDS recovering their costs – refer to Statement 7b). Switches & Crossings expenditure increased by 20 per cent compared to prior year, as a result of additional volumes completed (21 per cent) and higher refurbishment costs partly offset by unit cost savings (6 per cent). Total track expenditure in the control period was lower than the determination anticipated. This was mostly due to Network Rail delivering lower plain line volumes than the determination assumed but at a higher unit cost. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Since the publication of the Delivery Plan update 2010 some Plain Line activity has been deferred until future control periods, resulting in lower volumes (and so a reduction in costs) compared to the Regulator's assumption for control period 4. Unit costs in the control period were higher than the Regulator assumed. This was partly a result of the change in asset policy noted above. Concentrating renewals efforts on intensely used sections of the network increases the complexity and costs of replacement works compared to renewals delivered on less busy parts of the network. In addition, nearly £40m was spent on the National Gauging programme, this activity was not funded in the PR08 determination.
- (4) Structures – expenditure in the year and the control period was higher than the PR08. This was due to a number of factors, notably expenditure on works accelerated from control period 5 (£174m in the year, £250m in the control period). The funding for this programme was announced in the Government's Autumn Statement 2011 and was in addition to the allowances set out in the PR08. The extreme weather in 2012/13 also contributed to the level of renewals activity required in the current year as remediation works were undertaken at various sites across the network (as excessive levels of rainfall can have detrimental effects on the structures and embankments of the network). Extreme weather in the current year also contributed to the higher costs. This resulted in Network Rail delivering other projects that were not funded in the regulatory settlement, such as the heavily-publicised activity at Dawlish where coastal defences had to be reconstructed in the wake of the heavy weather. Structures assets are long-life (on average 125 years old) complex and heterogeneous. This longevity, their generally good performance and perception of robustness has historically resulted in a level of renewals investment (including minor works) that Network Rail now considers to be insufficient to maintain their condition sustainably and deliver an acceptable long-term risk outcome. As Network Rail's understanding of the structures portfolio has improved over the control period it became clear that additional capital works were necessary and consequently there was an increase in activity in control period 4 which is expected to continue into the next control period.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (5) Signalling – expenditure was higher than the PR08 for both the current year and for the control period. The variance in 2013/14 was due to a different assumption about the profile of work in the PR08 compared to Network Rail's own plan. Expenditure for the control period as a whole is one per cent higher than the Regulator's determination. However, this does not represent the underlying position of signalling financial outperformance that has been achieved in the control period. Spend in the control period includes nearly £150m of works originally planned for control period 5. This mostly relates to works on the Western route as Network Rail combines activities with other projects (notably the Crossrail enhancement programme) in order to deliver the most efficient upgrade of the network from both a cost and customer disruption perspective. Expenditure in the current year was largely in line with the previous year (four per cent higher) as increased expenditure on projects accelerated from future control periods was offset by the earlier completion of projects in 2012/13.
- (6) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was marginally (three per cent) higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was in line with the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.
- (7) Electrification – expenditure in the current year is over 70 per cent higher than the PR08 but 22 per cent lower across the control period. This is largely due to the profile assumed in the PR08 which anticipated more activity at the start of the control period compared to later years. The reduced expenditure in the control period as a whole was a combination of deferral of activity into later control periods (such as the SCADA projects) and financial outperformance as Network Rail was able to deliver the outputs required for control period 4 at a lower cost than the Regulator anticipated. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (8) Plant & machinery – expenditure for the year and the control period was significantly higher than the PR08. During the control period Network Rail invested over £100m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is £32m lower than 2012/13 largely due to higher fleet purchases (£44m) in the previous year.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

(9) Operational property – expenditure in the year was significantly higher than the determination. This was mostly due to additional outputs delivered at Birmingham New Street compared to the funding in the determination. The Regulator has given their consent for these extra works to be added to the RAB as efficient overspend (refer to Statement 2b). Expenditure for the year was nearly 70 per cent higher than the 2012/13 comparative which was also mostly driven by additional activity over and above the PR08 funding. As the table shows, expenditure for the control period was lower than the PR08. This saving reflects efficiencies (refer to Statement 5), deferrals of certain projects to the next control period and a switch of some planned activity in the Regulator's determination to Enhancements (relating to King's Cross). These savings are partly offset by additional works delivered at Birmingham New Street (as noted above) which are not included in the PR08 allowance in the table.

(10) Other – the major differences in this category are set out below:

- a. IT – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 12 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is only marginally (2.6 per cent) higher than the PR08 as Network Rail operated within the funding parameters of the determination.
- b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood and constructing the York workforce development centre.
- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would be complete in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Expenditure in the control period was £15m more than the determination assumed. Network Rail invested in projects to improve the infrastructure with the majority of the benefits crystallising in control period 5 and beyond.
- d. West Coast CP3 rollover – this category of renewals relates to expenditure deferred from control period 3 to control period 4 on the West Coast project. The Regulator set out the expected costs of these schemes, not all of which was eligible for addition to the RAB. The Cumulative PR08 value in the above table represents the amount eligible for RAB addition. Network Rail actually spend less than the Regulator expected on West Coast control period 3 rollover. The Regulator assumed that the expenditure would be incurred at the start of the control period compared to the profile of delivery assumed by Network Rail which has contributed to the adverse variance in the current year.
- e. ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.

Statement 9a: GB Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- f. Other – expenditure in the control period is higher than the PR08 as it includes nearly £200m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These will bring many disparate operational centres onto consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority is expected to occur over the next ten years. The Other category also includes approximately £70m invested by Network Rail to improve train performance in 2013/14 and beyond which is not eligible for addition to the RAB (see Statement 2b) and reduces financial outperformance (refer to Statement 5). Expenditure in the current year was almost 30 per cent higher than in 2012/13 largely as a result of this investment in train performance.

Statement 9b: GB Detailed analysis of renewals expenditure

In £m 2013/14 prices unless stated

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Track						
Plain line						
Conventional	422			1,866		
High output	176			748		
Reactive	5			62		
Refurbishment	31			92		
Switches and crossings						
S&C delivered	214			911		
Refurbishment	17			30		
Drainage	38			91		
Fencing	14			56		
Other off-track	69			145		
National gauging	23			37		
Engineering improvement schemes	-			1		
Total	1,009	736	(273)	4,039	4,143	104
Structures						
Underbridges	147	130	(17)	611	723	112
Overbridges	13	54	41	66	303	237
Bridgeguard 3	9	-	(9)	27	-	(27)
Earthworks	181	88	(93)	551	494	(57)
Major structures	29	8	(21)	187	161	(26)
Tunnels	26	26	-	78	157	79
Culverts	7	7	-	29	39	10
Footbridges	5	3	(2)	26	18	(8)
Coast/estuary defences	8	5	(3)	21	30	9
Retaining walls	4	6	2	24	32	8
Other	392	14	(378)	879	79	(800)
Total	821	341	(480)	2,499	2,036	(463)
Signalling						
Conventional resignalling	270	205	(65)	1,444	1,249	(195)
ERTMS resignalling	29	134	105	99	352	253
Level crossings	30	40	10	141	239	98
Minor works/ life extensions	98	103	5	491	562	71
Control centres	2		(2)	36		(36)
Modular signalling	19		(19)	95		(95)
Other	195	34	(161)	321	193	(128)
Total	643	516	(127)	2,627	2,595	(32)
Telecoms						
FTN/GSM-R						
Infrastructure	69			758		
Cab mobile	19			101		
Freight-only branch line	4			9		
Station information and						
CIS	4			27		
Public address	5			42		
Other	6			32		
Other operational						
Concentrators	2			28		
Driver-only operation CCTV	-			16		
Cable and cable routes	6			21		
Other	83			121		
Total	198	93	(105)	1,155	1,121	(34)

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Electrification						
Overhead line						
GE project	26			130		
Rewires	5			12		
Campaign changes	2			28		
Structures	7			20		
Other	8			18		
Conductor rail	5			11		
AC distribution	18	22	4	56	148	92
DC distribution						
HV switchgear	12			37		
HV cables	8			45		
Transformer rectifiers	3			36		
LV switchgear	11			21		
LV cables (DC)	3			5		
Other	3			11		
SCADA	6	8	2	18	60	42
Other	61			123		
Total	178	104	(74)	571	732	161
Plant and machinery						
Fixed Plant						
Point heaters	5	11	6	17	46	29
Signalling power distribution	12	9	(3)	24	36	12
Signalling supply points	7	11	4	23	46	23
Other fixed plant	25	13	(12)	97	64	(33)
High output plant	15	2	(13)	72	155	83
Intelligent infrastructure	1	2	1	26	38	12
Fleet and machinery (NDS)	13	2	(11)	59	40	(19)
Rail fleet	-	-	-	3	6	3
Mobile plant and other	17	9	(8)	243	54	(189)
Total	95	59	(36)	564	485	(79)
Operational property						
Managed stations	142	34	(108)	392	415	23
Franchised stations	146	121	(25)	748	796	48
Light maintenance depots	18	14	(4)	80	78	(2)
Depot plant	4		(4)	15		(15)
Lineside buildings	16		(16)	87		(87)
MDU buildings	22	13	(9)	81	70	(11)
NDS depots	3	20	17	11	97	86
Total	351	202	(149)	1,414	1,456	42
Other renewals						
IT	101	83	(18)	477	465	(12)
Corporate offices	38	17	(21)	253	97	(156)
WCML engineering access	26	2	(24)	118	103	(15)
WC rollover from CP3	32	-	(32)	170	116	(54)
ORBIS	53	-	(53)	93	-	(93)
Other renewals	156	35	(121)	312	146	(166)
Total	406	137	(269)	1,423	927	(496)
Total renewals expenditure	3,701	2,188	(1,513)	14,292	13,495	(797)

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference columns may not cast.

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £733m overspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.
- (2) Track – expenditure in the year was noticeably higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. In addition, Network Rail has not been able to achieve the unit cost reduction for both Plain Line and Switches & Crossings that the PR08 assumed. Expenditure was more than 25 per cent higher than the previous year. This was mostly the result of higher non-volume expenditure including additional expenditure on fencing, drainage, national gauging programme and contractor settlement costs. Plain Line expenditure increased by over 10 per cent compared to prior year, due to an increase in volumes delivered (nearly 8 per cent) and higher unit costs. These higher unit costs arose largely from changes in contractual arrangements with suppliers which exposed Network Rail to a greater proportion of contractor costs (as actual volumes delivered were lower than planned) and a move towards more cost reflective pricing within the organisation (as part of NDS recovering their costs – refer to Statement 7b). Switches & Crossings expenditure increased by 20 per cent compared to prior year, as a result of additional volumes completed (21 per cent) and higher refurbishment costs partly offset by unit cost savings (6 per cent). Total track expenditure in the control period was lower than the determination anticipated. This was mostly due to Network Rail delivering lower plain line volumes than the determination assumed but at a higher unit cost. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Since the publication of the Delivery Plan update 2010 some Plain Line activity has been deferred until future control periods, resulting in lower volumes (and so a reduction in costs) compared to the Regulator's assumption for control period 4. Unit costs in the control period were higher than the Regulator assumed. This was partly a result of the change in asset policy noted above. Concentrating renewals efforts on intensely used sections of the network increases the complexity and costs of replacement works compared to renewals delivered on less busy parts of the network. In addition, nearly £40m was spent on the National Gauging programme, this activity was not funded in the PR08 determination.

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (3) Structures – expenditure in the year and the control period was higher than the PR08. This was due to a number of factors, notably expenditure on works accelerated from control period 5 (£174m in the year, £250m in the control period). The funding for this programme was announced in the Government's Autumn Statement 2011 and was in addition to the allowances set out in the PR08. The extreme weather in 2012/13 also contributed to the level of renewals activity required in the current year as remediation works were undertaken at various sites across the network (as excessive levels of rainfall can have detrimental effects on the structures and embankments of the network). Extreme weather in the current year also contributed to the higher costs. This resulted in Network Rail delivering other projects that were not funded in the regulatory settlement, such as the heavily-publicised activity at Dawlish where coastal defences had to be reconstructed in the wake of the heavy weather. Structures assets are long-life (on average 125 years old) complex and heterogeneous. This longevity, their generally good performance and perception of robustness has historically resulted in a level of renewals investment (including minor works) that Network Rail now considers to be insufficient to maintain their condition sustainably and deliver an acceptable long-term risk outcome. As Network Rail's understanding of the structures portfolio has improved over the control period it became clear that additional capital works were necessary and consequently there was an increase in activity in control period 4 which is expected to continue into the next control period.
- (4) Signalling – expenditure was higher than the PR08 for both the current year and for the control period. The variance in 2013/14 was due to a different assumption about the profile of work in the PR08 compared to Network Rail's own plan. Expenditure for the control period as a whole is one per cent higher than the Regulator's determination. However, this does not represent the underlying position of signalling financial outperformance that has been achieved in the control period. Spend in the control period includes nearly £150m of works originally planned for control period 5. This mostly relates to works on the Western route as Network Rail combines activities with other projects (notably the Crossrail enhancement programme) in order to deliver the most efficient upgrade of the network from both a cost and customer disruption perspective. Expenditure in the current year was largely in line with the previous year (four per cent higher) as increased expenditure on projects accelerated from future control periods was offset by the earlier completion of projects in 2012/13.
- (5) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was marginally (three per cent) higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was in line with the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (6) Electrification – expenditure in the current year is over 70 per cent higher than the PR08 but 22 per cent lower across the control period. This is largely due to the profile assumed in the PR08 which anticipated more activity at the start of the control period compared to later years. The reduced expenditure in the control period as a whole was a combination of deferral of activity into later control periods (such as the SCADA projects) and financial outperformance as Network Rail was able to deliver the outputs required for control period 4 at a lower cost than the Regulator anticipated. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (7) Plant & machinery – expenditure for the year and the control period was significantly higher than the PR08. During the control period Network Rail invested over £100m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is £32m lower than 2012/13 largely due to higher fleet purchases (£44m) in the previous year.
- (8) Operational property – expenditure in the year was significantly higher than the determination. This was mostly due to additional outputs delivered at Birmingham New Street compared to the funding in the determination. The Regulator has given their consent for these extra works to be added to the RAB as efficient overspend (refer to Statement 2b). Expenditure for the year was nearly 70 per cent higher than the 2012/13 comparative which was also mostly driven by additional activity over and above the PR08 funding. As the table shows, expenditure for the control period was lower than the PR08. This saving reflects efficiencies (refer to Statement 5), deferrals of certain projects to the next control period and a switch of some planned activity in the Regulator's determination to Enhancements (relating to King's Cross). These savings are partly offset by additional works delivered at Birmingham New Street (as noted above) which are not included in the PR08 allowance in the above table.
- (9) Other – the major differences in this category are set out below:
 - a. IM – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 12 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is only marginally (2.6 per cent) higher than the PR08 as Network Rail operated within the funding parameters of the determination.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood and constructing the York workforce development centre.

Statement 9b: GB Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would be complete in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Expenditure in the control period was £15m more than the determination assumed. Network Rail invested in projects to improve the infrastructure with the majority of the benefits crystallising in control period 5 and beyond.
- d. West Coast CP3 rollover – this category of renewals relates to expenditure deferred from control period 3 to control period 4 on the West Coast project. The Regulator set out the expected costs of these schemes, not all of which was eligible for addition to the RAB. The Cumulative PR08 value in the above table represents the amount eligible for RAB addition. Network Rail actually spend less than the Regulator expected on West Coast control period 3 rollover. The Regulator assumed that the expenditure would be incurred at the start of the control period compared to the profile of delivery assumed by Network Rail which has contributed to the adverse variance in the current year.
- e. ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.
- f. Other – expenditure in the control period is higher than the PR08 as it includes nearly £200m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These will bring many disparate operational centres onto consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority is expected to occur over the next ten years. The Other category also includes approximately £70m invested by Network Rail to improve train performance in 2013/14 and beyond which is not eligible for addition to the RAB (see Statement 2b) and reduces financial outperformance (refer to Statement 5). Expenditure in the current year was almost 30 per cent higher than in 2012/13 largely as a result of this investment in train performance.

Statement 10: GB Other information

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element						
Schedule 4						
Income	-					
Cost	(167)					
Net (cost)/ income	(167)	(145)	(22)			
Schedule 8						
Net amount payable under NR regime	(194)					
Net amount payable under TOC regime	(3)					
Net cost	(197)	-	(197)			
B) Net Impact of Schedule 4 & 8						
Schedule 4						
Access Charge Supplement Income	146	145	1	892	893	(1)
(Cost)/ income	(167)	(145)	(22)	(707)	(893)	186
Net income	(21)	-	(21)	185	-	185
Schedule 8						
Access Charge Supplement Income	-	-	-	6	-	6
Cost	(197)	-	(197)	(482)	-	(482)
Net cost	(197)	-	(197)	(476)	-	(476)
C) Opex memorandum account						
Opening balance						
Volume incentive	70					
Proposed amounts to be included in the CP5 expenditure allowance	34					
Total logged up items – opening balance	104					
In year						
Volume incentive	(9)					
Proposed amounts to be included in the CP5 expenditure allowance	73					
Total logged up items – in year movements	64					
Closing balance						
Volume incentive	61					
Proposed amounts to be included in the CP5 expenditure allowance	107					
Total logged up items – closing balance	168					

Statement 10: GB Other information continued

In £m 2013/14 prices unless stated otherwise

D) Compliance with licence limits

	2013/14 Actual	Limits
Licence condition		
Turnover (per annum)	15	175
Investment (cumulative)	198	263
Specific consents		
Property development	16	50
Property	180	180

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost 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 revenue. 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 a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. In addition, the PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. In their determination for control period 5, the ORR has indicated that Network Rail will be funded for this shortfall in control period 5 and so this is also included in the Opex memorandum account. In addition, the PR08 stated that Network Rail would be compensated for any shortfall in income relating to delays from the developments at Euston and Victoria and so this too is included in the Opex memorandum account.
- (7) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Amounts earned under the volume incentive are included in the Opex memorandum. The amount recognised in the current year is negative as although train mileage increased slightly compared to the previous year the Regulator's hurdle rate gets progressively more challenging with each year of the control period.
- (8) Amounts in the Opex memorandum at the end of the control period are returned to Network Rail through additional income payments in control period 5, as set out in the Regulator's PR13 determination.

Statement 10: GB Other information continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) Schedule 4 – compensation payments for possessions in the year were higher than the PR08 anticipated. This was largely due to differences in the profile of capital works delivery assumed in the determination compared to Network Rail's actual delivery of these projects (refer to Statement 9a). The comparatively higher level of capital expenditure in this year necessitated a higher number of possessions than the Regulator expected and so higher Schedule 4 compensation costs. The increase in capital delivery compared to the previous year also helped increase Schedule 4 costs compared to 2012/13 by approximately one-third. For the control period as a whole, Schedule 4 costs were 21 per cent lower than the regulatory allowance. This was largely due to better organisation of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 allowances in the determination can be allocated accurately between different activities (mostly for different renewals categories (track, electrification, signalling, electrification and structures) but also for maintenance and emergency timetables). There is minimal net impact on Schedule 4 costs arising from the re-profiling of activity between control period 4 and control period 5, with accelerated delivery of structures and signalling works being offset by deferrals of plain line track and electrification.

Statement 10: GB Other information continued

In £m 2013/14 prices unless stated otherwise

- (2) Schedule 8 – net costs are 40 per cent higher than the previous year. This was largely due to deteriorating train performance as passenger services punctuality declined from 90.9 per cent to 90.0 per cent and delay minutes increased 8 per cent. In addition, because the performance regime benchmark gets progressively more challenging with each passing year of the control period performance has to improve each year to avoid financial penalties. Whilst Schedule 8 costs are not exactly matched to overall train performance or delay minutes (for example, different operators have different costs per delay minutes) there is a strong correlation between overall train performance and Schedule 8 costs. There was a net cost of £197m for the year compared to the PR08 determination which assumed that that Schedule 8 costs would be neutral (i.e. no net income or costs). The PR08 assumed that overall Network Rail would achieve the performance targets in the control period and so that no net payment would be made. However, during the control period delay minutes have been over 20 per cent higher than the Regulator assumed and train punctuality rates are significantly lower than the ORR's targets. A number of factors have contributed to Network Rail missing train performance targets in the control period, including extraneous factors such as extreme weather and cable theft, as well as asset failures and increased traffic on the network. The control period witnessed some severe weather events which hampered performance. This included excessive precipitation in 2013/14 which played a role in the increased delay minutes in the current year compared to the prior year. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Train performance in 2012/13 was also affected by rainfall, with 2012 being the third wettest year on record. Prior to these weather events in the final two years of the control period, train punctuality peaked at 91.6 per cent (which was still lower than the ORR assumption for that year). Train performance in the control period has also been influenced by higher levels of cable theft, network trespass and fatalities than planned. Cable theft has contributed nearly 0.9 million passenger train delay minutes in the control period resulting in costs of around £40m. The insipid impact of cable theft was more pronounced in the earlier years of the control period. Recognising the adverse impact on performance, Network Rail undertook a number of initiatives to address this issue, such as lobbying government for changes in the law (resulting the Scrap Metal Dealers Act 2013), creating a specialist task forecast in conjunction with British Transport Police and the introduction of new cables which are easier to identify and harder to steal. Consequently, delay minutes attributable to cable theft declined in the final two years of the control period. Increased traffic on the network also contributed to the adverse Schedule 8 costs in the period. The delay per incident metric (which monitors the amount of disruption caused by individual incidents) has shown increases during the control period as the network is more intensively used. The higher Schedule 8 costs are also partly driven by changes in Network Rail's insurance arrangements. At the time of the determination, Network Rail paid higher insurance premiums in order to secure a lower excess that had to be borne by Network Rail for each individual claim. Network Rail re-structured its insurance arrangements meaning that it paid lower annual premiums but was exposed to higher excess rates. Therefore, the savings made in insurance costs compared to the Regulator's determination in the control period (refer to Statement 7a) have been partly offset by higher Schedule 8 costs. The additional Schedule 8 costs incurred during the control period are partly offset by additional income that Network Rail has earned through the volume incentive (refer to Statement 13) and capacity charges (refer to Statement 6a, although the PR08 allowances for capacity charges are mis-stated as noted above). In addition, there have also been a number of asset failures which have contributed to the adverse delay minutes. As well as the costs Network Rail have incurred through the Schedule 8 compensation mechanism of £476m for the control period, these delays have also resulted in the ORR levying a financial penalty of £53m for missed regulatory outputs and Network Rail committing to invest a further £24m to improve train performance and the passenger experience (refer to Statement 7a), making the total cost of missing train performance targets £553m adverse to the determination.

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

In £m 2013/14 prices unless stated otherwise

2013/14

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	21	-	-	-	-	8	29
Renewals	-	-	-	-	-	-	-
Total	21	-	-	-	-	8	29

Cumulative

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	98	-	1	-	2	43	144
Renewals	-	-	-	-	-	-	-
Total	98	-	1	-	2	43	144

Notes:

- (1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2013/14 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2013/14				
Efficiency (£m)	(102)	80	83	61
Efficiency (%)	(10.4)%	7.7%	0.7%	(0.4)%
NR trajectory (£m)	79	57	170	306
NR trajectory (%)	8.2%	5.1%	5.6%	6.1%
PR08 (£m)	33	55	126	214
PR08 (%)	4.0%	4.5%	5.5%	5.0%
Cumulative				
Efficiency (£m)	(10)	389	451	830
Efficiency (%)	(0.9)%	29.1%	15.3%	15.5%
NR trajectory (£m)	159	357	877	1,393
NR trajectory (%)	15.3%	25.5%	25.2%	23.5%
PR08 (£m)	154	251	694	1,099
PR08 (%)	16.4%	18.0%	23.8%	20.9%

Comments:

- (1) The Controllable Opex position for the current year in the above table includes a provision for the long distance train performance financial penalty levied by the ORR and additional re-organisation costs.
- (2) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

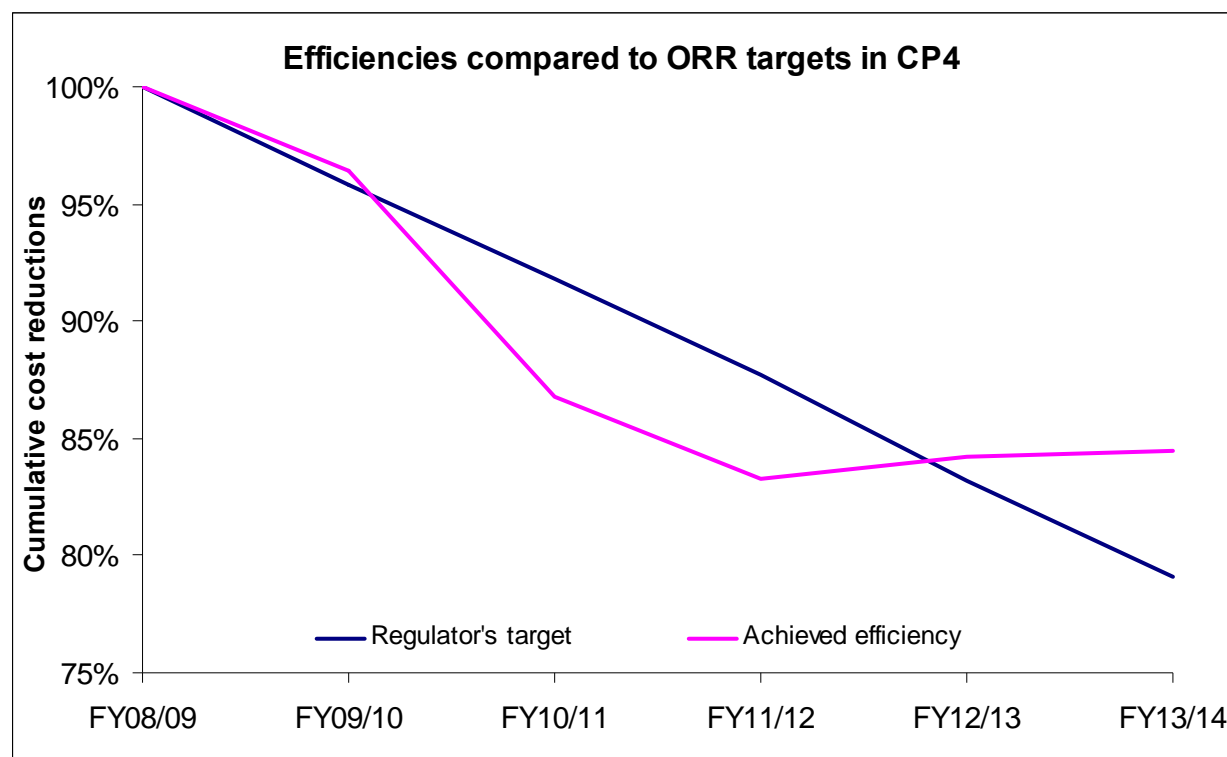
- (3) The REEM indicates the level of efficiency made in comparison to the control period 3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in control period 4 compared to control period 3.
- (4) In their PR08 settlement, ORR assumed a reduction in controllable opex, maintenance and renewals costs by 21 per cent by the end of control period 4.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (control period 3 exit point) as set out in the below table:

Year	In year inflation	Cumulative inflation from 2008/09
2009/10	0.30%	0.30%
2010/11	4.71%	5.02%
2011/12	5.16%	10.44%
2012/13	2.98%	13.73%
2013/14	2.65%	16.74%

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (7) Whilst efficiencies in the final year of the control period are below the Regulator's expectation, this has not been the case throughout the entire control period. The below shows how the reported efficiencies have compared to the ORR's target:



- (8) Overall, efficiencies for the control period are 15.5 per cent. This is lower than the previous year, which reported efficiencies of 15.8 per cent. The result was also lower than the ORR efficiency target and Network Rail's own efficiency trajectory. The decrease in efficiencies in 2013/14 compared to the previous year is caused by additional Opex costs arising from one-offs (the ORR financial penalty for missed long distance train performance targets and restructuring costs) partly offset by Maintenance savings (building on efficiencies made earlier in the control period) and marginal improvements in renewals efficiencies. About half of the difference between the REEM for the control period (15.5 per cent) and the Regulator's target (20.9%) is due to these one-off opex costs (discussed in more detail below).

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (9) Controllable opex – controllable opex efficiencies in the control period were slightly negative. This implies that Network Rail has not reduced its Opex costs in the current control compared with the 2008/09 baseline. The 2013/14 REEM was adversely impacted by some notable one-off costs which distort the underlying picture of efficiency savings. The current year includes a financial penalty imposed by the ORR for missed train performance on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £53m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, the current year includes amounts for commercial claims regarding properties and provisions for restructuring as the company is re-organised into an appropriate configuration to help deliver the cost savings required by the industry. Without these notable one-off items the Opex efficiency for the control period would be 11.7 per cent which, whilst still below the Regulator's assumption and Network Rail's own trajectory, does reflect the underlying savings that have been made during the control period. As set out in the Delivery Plan 2009, Network Rail did not plan to deliver the Regulator's target efficiencies of 16.4 per cent for the control period (with Maintenance delivering the compensating savings). Staff costs (notably signaller staff costs) are a large component of Opex costs. Consequently, the main way Network Rail can reduce costs would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions to signalling sites around the country without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base going forwards. However, initiating such wide ranging plans takes time. Also, additional expenditure on safety initiatives has introduced extra expense into the day-to-day costs of the company.
- (10) Maintenance – efficiencies for the control period were greater than the targets in the Regulator's determination and in Network Rail's own trajectory, continuing the trend witnessed across the control period. Cost reductions have been largely achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses.
- (11) Renewals – improvements in underlying renewals efficiencies were largely off-set by some significant one-off programmes. This most notable of these was a specific Performance Recovery Fund which invested £70m to improve train performance in 2013/14 and beyond which was over and above the overall renewals funding included in the PR08. Without this, renewals efficiencies in the current year would have been 17.7 per cent (and overall REEM would have been around 1.3 per cent higher). Renewals efficiencies by category are discussed in more detail below:

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 (and endorsed by the Regulator) renewals activity would prioritise works on the more critical route sections of the network based on condition rather than just replacing track based on age, thus extending the life of quieter parts of the network. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, *ceteris paribus*, unit costs would increase compared to the 2008/09 base line rate. For plain line activity the volume driven savings were partly offset by higher than expected track unit costs. In order to create a more collaborative approach with its suppliers Network Rail has introduced framework contracts to protect suppliers against annual fluctuations in Network Rail's demand resulting in higher fixed costs inherent in the contracts. Thus, decreases in volumes do not result in linear decreases in unit costs and as volumes delivered in the year were lower than planned, Network Rail was exposed to a higher proportion of contractors' costs. Non-volume efficiencies were lower than the Regulator planned due to additional costs associated with the National Gauging project (which was not included in the PR08 baseline), additional fencing and drainage works and compensation payments made to contractors as Network Rail negotiates new terms for the forthcoming control period.
- b. Signalling – during control period 4, signalling efficiencies have been nearly 13 per cent, well below the regulatory target, and less than the efficiency reported in the last two years. Cost savings have been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies were adversely impacted by increases in non-volume costs as expected costs for minor projects for the control period as a whole have increased compared to the Regulator's determination.
- c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs.
- d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also, completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs), organising extended possessions (to enable more work to be completed at one time) and early engagement with delivery partners have also enabled cost reductions in this control period.
- e. Telecoms (non-FTN) – savings in the control period have arisen from savings across a number of small projects delivered during the control period. Common drivers of efficiency across a number of projects include: better contract negotiation to secure lower prices and better delivery solutions, replacing components/maintaining assets such as Large concentrators on a timely basis (with no adverse impact on whole-life costs) and better understanding of asset condition to determine optimal timing of replacement.
- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2013/14. This programme was always expected to spend more than the post-efficient funding available due to complications in delivering the solution compared to the original plan. Increases in the scope of the project resulted in additional costs. Also, extra asset testing, trespass and vandalism measures increased the costs of delivery compared to expectations.

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- g. Plant & machinery – efficiencies were delivered across a number of small projects. Savings were made through combining contracts to extract best value from suppliers, utilising cheaper in-house resource to deliver projects and improved procurement processes through contractor and materials frameworks.
- h. IM – efficiencies were in line with the Regulator's targets for the control period as Network Rail delivered the required outputs within the funding levels specified by the Regulator.
- i. Corporate offices – the amount spent across the control period was higher than the pre-efficient determination. This additional expenditure was caused by extra buildings being constructed by Network Rail. These projects have solid business cases which will result in Network Rail saving money in the future (and so reducing the government subsidy required) but the original funding for these items was not included in the PR08 baselines.
- j. Other – this category included expenditure on the Performance Recovery Fund, the adverse impact of which has been discussed above.

Statement 13: GB Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	61	308.31 m	282.66 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£8,257 m	£6,004 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	26.13 m	27.2 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	29,946 m	28,438 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	61					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in control period 4 which assumed an increase in passenger demand each year. However, this demand growth could be higher than envisaged in the PR08. Therefore the regulatory settlement for CP4 seeks to incentivise Network Rail to meet these unanticipated increases in demand largely through non-capex intensive solutions. The above table sets out the growth targets Network Rail has to achieve to trigger the volume incentives. Network Rail has been able to respond to the additional passenger demand by increasing the number of passenger train miles by over 9 per cent (or 25.65 million) compared to 2008/09 (the baseline year). This resulted in Network Rail earning £61m under the volume incentive mechanism. This outperformance has not been included in the overall financial assessment of how Network Rail has performed during the control period (refer to Statement 5). As set out in the Regulator's control period 5 PR13 determination the amounts earned under the volume incentive are included in the Opex memorandum account (refer to Statement 10) and are received by Network Rail during control period 5.

Statement 14: GB Maintenance unit costs

In £m 2013/14 prices unless stated otherwise

A) Maintenance expenditure 2013/14

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	4,907	3,807	18,681	-	18,681
MNT006	Manual Wet Bed Removal	Bay	153	31,234	4,779	-	4,779
MNT010	Replacement of S&C Bearers	Each	447	7,107	3,177	-	3,177
MNT011	S&C Arc Weld Repair	Number	545	15,267	8,321	-	8,321
MNT013	Level 1 Patrolling Track Inspection	Mile	72	626,008	45,073	-	45,073
MNT015	Weld Repair of Defective Rail	Number	547	8,441	4,617	-	4,617
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,015	1,472	2,966	-	2,966
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	2,343,157	9,373	-	9,373
MNT026	Replenishment of Ballast Train	Tonne	22	185,668	4,085	-	4,085
MNT027	Maintenance of Rail Lubricators	Lubricator	125	113,728	14,216	-	14,216
MNT029	Replacement of Pads & Insulators	Sleeper	15	454,528	6,818	-	6,818
MNT030	Maintenance of Longitudinal Timber	Timber	99	11,169	1,106	-	1,106
MNT032	CWR – Stressing	Yard	10	521,551	5,216	-	5,216
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	276	3,827	1,056	-	1,056
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	281	32,459	9,121	-	9,121
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	60	66,282	3,977	-	3,977
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	123	96,164	11,828	-	11,828
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	80	27,293	2,183	-	2,183
MNT120	S&C - Renew crossing	Crossing	16,160	752	12,152	-	12,152
MNT123	S&C Renew Half Set of Switches	H/S Switch	12,910	673	8,688	-	8,688
MNT125	Track Inspection (Other)	Mile	43	323,801	13,923	-	13,923
MNT128	Lift & Replace Level Crossing for PWAY	Location	803	4,158	3,339	-	3,339
MNT150	Signalling Cables	Various	44	166,770	7,338	-	7,338
MNT155	Point End Routine Maintenance non Powered	Point End	56	68,178	3,818	-	3,818
MNT156	Point End Routine Maintenance Powered	Point End	74	504,716	37,349	-	37,349
MNT170	Vegetation Management (Manual)	Square Yard	3	4,343,731	13,031	-	13,031
MNT207	Maintain CRE Cables	Various	107	13,313	1,424	-	1,424
MNT210	Maintain Non-Traction Power Supplies	Each	81	4,226	342	-	342
MNT211	Maintain OHL Components	Various	51	407,894	20,803	-	20,803
MNT212	Maintain Points Heating	Each	40	157,118	6,285	-	6,285
Total					285,085	-	285,085
Expenditure outside unit cost framework						666,915	666,915
Total					285,085	666,915	952,000

Statement 14: GB Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

B) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	6,937	3,512	24,362	-	24,362
MNT006	Manual Wet Bed Removal	Bay	179	32,166	5,745	-	5,745
MNT010	Replacement of S&C Bearers	Each	505	5,966	3,013	-	3,013
MNT011	S&C Arc Weld Repair	Number	609	9,019	5,490	-	5,490
MNT013	Level 1 Patrolling Track Inspection	Mile	75	674,690	50,556	-	50,556
MNT015	Weld Repair of Defective Rail	Number	462	9,755	4,506	-	4,506
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,104	1,486	3,126	-	3,126
MNT020	Manual Reprofilling of Ballast	Rail Yard	4	2,900,734	11,910	-	11,910
MNT026	Replenishment of Ballast Train	Tonne	20	235,736	4,598	-	4,598
MNT027	Maintenance of Rail Lubricators	Lubricator	129	122,112	15,793	-	15,793
MNT029	Replacement of Pads & Insulators	Sleeper	16	474,546	7,794	-	7,794
MNT030	Maintenance of Longitudinal Timber	Timber	110	8,555	939	-	939
MNT032	CWR – Stressing	Yard	10	515,206	5,288	-	5,288
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	301	3,715	1,117	-	1,117
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	326	33,045	10,786	-	10,786
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	80	63,576	5,090	-	5,090
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	127	98,885	12,587	-	12,587
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	106	15,370	1,625	-	1,625
MNT120	S&C - Renew crossing	Crossing	17,755	604	10,724	-	10,724
MNT123	S&C Renew Half Set of Switches	H/S Switch	14,011	622	8,715	-	8,715
MNT125	Track Inspection (Other)	Mile	35	338,773	11,823	-	11,823
MNT128	Lift & Replace Level Crossing for PWAY	Location	918	3,399	3,119	-	3,119
MNT150	Signalling Cables	Various	40	169,634	6,791	-	6,791
MNT155	Point End Routine Maintenance non Powered	Point End	85	70,026	5,966	-	5,966
MNT156	Point End Routine Maintenance Powered	Point End	92	508,420	46,969	-	46,969
MNT170	Vegetation Management (Manual)	Square Yard	4	3,977,251	16,330	-	16,330
MNT207	Maintain CRE Cables	Various	119	10,115	1,204	-	1,204
MNT210	Maintain Non-Traction Power Supplies	Each	109	1,899	206	-	206
MNT211	Maintain OHL Components	Various	110	251,957	27,673	-	27,673
MNT212	Maintain Points Heating	Each	47	164,155	7,751	-	7,751
Total					321,596	-	321,596
Expenditure outside unit cost framework						703,404	703,404
Total					321,596	703,404	1,025,000

Statement 14: GB Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) Network Rail has continued with improving the unit cost system architecture and processes as recommended by last year's review of unit costs undertaken by Arup. Improvements this year include:
 - a. Increasing granularity on labour costs included within the framework;
 - b. Reducing the timeframe of reporting actual data;
 - c. Improving the accessibility and visibility of the reported data and governance framework.
- (2) The proportion of costs disclosed through the MUC (Maintenance Unit Cost) framework in the above tables has remained in line with the previous year at around 30 per cent.

Statement 15: GB Renewals unit costs and coverage

In £m 2013/14 prices unless stated otherwise

A) Renewals unit costs 2013/14

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	324	1,861	603		603
	S&C equivalent unit renewal	487	439	214		212
	Other non-volume costs				192	192
	Total			817	192	1,009
Civils	701 Overbridge	0.62	8,934	6		6
	702 Underbridge	1.80	65,167	117		117
	703 Overbridge - Bridgeguard 3	2.58	4,003	10		10
	704 Footbridge	2.96	591	2		2
	705 Tunnel	2.14	10,519	23		23
	706 Culvert	2.58	583	2		2
	707 Retaining Wall	0.98	386	0		0
	708 Earthworks	0.19	592,466	113		113
	Other non-volume costs				548	548
	Total			273	548	821
Signalling	101 - Re-signalling	196	979	192		192
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	700	47	33		33
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				418	418
	Total			225	418	643
Telecoms	501 - Large concentrator	250	1	0		0
	502 - DOO CCTV	29	5	0		0
	503 - PETS/Level crossing	42	7	0		0
	504 - Small signal box concentrator	210	16	3		3
	506 - Customer Info system	7	421	3		3
	507 - Long line address system	4	4,771	19		19
	Other non-volume costs				173	173
	Total			25	173	198

Statement 15: GB Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

B) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	310	1,726	535		535
	S&C equivalent unit renewal	516	362	187		187
	Other non-volume costs				81	81
	Total			722	81	803
Civils	701 Overbridge	1.28	6,641	9		9
	702 Underbridge	1.30	78,829	102		102
	703 Overbridge - Bridgeguard 3	1.07	824	1		1
	704 Footbridge	5.13	1,097	6		6
	705 Tunnel	0.73	6,983	5		5
	706 Culvert	4.21	661	3		3
	707 Retaining Wall	2.25	926	2		2
	708 Earthworks	0.12	477,646	57		57
	Other non-volume costs				290	290
	Total			185	290	475
Signalling	101 - Re-signalling	198	836	166		166
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	391	27	11		11
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				446	446
	Total			177	446	623
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	28	53	1		1
	503 - PETS/Level crossing	14	47	1		1
	504 - Small signal box concentrator	208	26	5		5
	506 - Customer Info system	31	123	4		4
	507 - Long line address system	3	4,491	13		13
	Other non-volume costs				168	168
	Total			24	168	192

Statement 15: GB Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.
- (2) Signalling Re-signalling volumes presented in the above table are on an “earned” basis rather than a “commissioned” basis. Commissioning of signalling schemes refers to when the assets come into use but as costs can be incurred on signalling schemes over a number of years this would not give an appropriate indication of unit rates or the level of work completed. Instead, disclosing volumes on an earned basis allows a fairer reflection of the costs and activity in a particular year and allows for a more meaningful comparison.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has increased by 21 per cent compared to the previous year. However, there was a decrease in the proportion of total renewals expenditure captured through the unit costs above (largely as a result of increased expenditure in renewals categories not covered through unit costs, such as ORBIS, efficient overspend and performance recovery funds – refer to Statement 9a).
- (2) Track – Plain line – volumes delivered were 8 per cent higher than the previous year mainly due to a partial catch up of volumes deferred in 2012/13. Despite the increased delivery, the total number of units delivered in the control period was less than set out in the Delivery Plan update 2012. As noted in the previous year's Regulatory Financial Statements there were a number of factors which limited delivery of projects (such as adverse weather and ground conditions and industrial action by a key logistics partner). Therefore, Network Rail planned to catch up some of this shortfall in 2013/14 and also to maximise the use of emergent delivery techniques, such as high output delivered works on the East Coast and the West Coast. High output is able to replace plain line track in a more timely manner, thus reducing disruption on the railway for the passenger as well as minimising Schedule 4 costs (refer to Statement 10). However, this type of delivery solution is expensive and has contributed to increased unit costs in the current year compared to the previous year. Another key factor in the unit rate uplift was the contractual shift with some delivery partners towards cost plus pricing, which exposed Network Rail to a greater proportion of underlying contractor cost whilst internal cost reflective pricing saw material and plant-based distribution costs cross-charged at a more open-market cost where previously this had been partially absorbed by National Delivery Service (refer to Statement 7b).
- (3) Track – Switches & Crossings – volumes delivered in the year were 21 per cent higher than 2012/13. This increase was planned as Network Rail intended to deliver more Switches & Crossings units per year as the control period progressed (as set out in the Delivery Plan update 2012). Overall, Network Rail delivered slightly more Switches & Crossings units in the control period than the Delivery Plan update 2012 anticipated as some work was accelerated from control period 5. Unit costs were 6 per cent lower than the previous year partly driven by the increase in volumes delivered. There are a certain level track renewals costs which are fixed in the short term, such as design and management costs, meaning that increased volumes can reduce unit costs. Savings have also been realised through improved contracting strategy enacted by National Delivery Service relating to the purchase of Switches & Crossings units from their suppliers, which has resulted in a cost saving.

Statement 15: GB Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (4) Civils – Overbridges – unit costs have decreased by around 50 per cent compared to the previous year which was largely due to the mix and scope of jobs. The level of Overbridge projects were lower the prior year (although the total units were higher) giving greater sensitivity to the projects completed and allowing the projects completed to benefit from economies of scale around design, planning and mobilisation. Projects such as Sunderland Station raft repairs, Smithy Lane steel work repairs and Beza street repair works all had lower unit costs than average for this category of Civils. The comparative year had some relatively expensive projects such as Mitigation works at Ewenny, concrete repairs at Solden and Laitys Road Strengthening works. The increase in the number of units delivered in the current year compared to 2012/13 was planned in the Delivery Plan update 2012, with the extra units delivered in both 2012/13 and 2013/14 compared to the Delivery Plan update 2012 arising from deferral of activity from 2011/12. Total units delivered in the control period were within 1 per cent of the volumes set out in the Delivery Plan update 2012.
- (5) Civils – Underbridges – unit costs were nearly 40 per cent higher than the previous year, which reversed some of the 20 per cent cost reduction reported in that year compared to the 2011/12 rates. Some of the projects delivered in the current year had noticeably higher unit rates than the average for these items such as River Avon Bridge scour protection, Barnabus Road reconstruction, Ravensbourne Park and Griffiths Road (replacement of superstructure). The number of volumes delivered decreased by over 15 per cent compared to the previous year and total volumes delivered in the control period were around 10 per cent lower than the assumption in the Delivery Plan update 2012. This was partly attributable to a shift towards developmental works in many routes to underpin the development of an amended workbank for control period 5.
- (6) Civils – Bridgeguard 3 – unit costs were more than twice the costs in the previous year. As noted in last year's Regulatory Financial Statements, the unit costs reported in 2012/13 were distorted by the low level of volumes delivered (less than 10 per cent of the number of units delivered in 2011/12 or 2013/14). Unit costs in the current year are more in line with the 2011/12 rates (10 per cent lower) further demonstrating the impact of the low volumes in 2012/13. Volumes delivered in the year were significantly higher than the previous year as the work deferred in 2012/13 (which included some complex projects that required innovative design solutions and hence delays) was caught up in 2013/14. Total units delivered in the control period were within 1 per cent of the volumes set out in the Delivery Plan update 2012.
- (7) Civils – Footbridges – unit costs decreased by over 40 per cent compared to the previous year. This was partly due to the decrease in volumes which introduced greater volatility in the unit costs comparison. As noted in last year's Regulatory Financial Statements the unit rates in 2012/13 were adversely impacted by projects with higher than average costs. This included projects at Cross Keys, Wheelers Lane, Hillyfields and Mayfield. Volumes delivered were approximately half of those delivered in the previous year. Several planned footbridges could not be completed this year due to varying delivery and possession-based issues, such as Clarke's bridge. This helped reduce the level of renewals in the control period to about three-quarters of the total predicted in the Delivery Plan update 2012.
- (8) Civils – Tunnels – unit costs have increased by nearly 200 per cent compared to the previous year reflecting more expensive, complex works undertaken this year. There were a number of jobs which included a number of significant element of repair works with high unit rates including tunnels at Holme, Blea Moor and Clay Cross. In addition, Argyle Line Tunnel Service Duct repairs had a higher than average unit rate reflecting works needed to address increased performance incidents requiring remedial works to rectify significantly corroded service ducts and protective painting. Volumes delivered in the current year were 50 per cent more than the previous year as more complex schemes that have been in development for some time were completed. Total volumes delivered in the control period were about 10 per cent higher than the Delivery Plan update 2012 anticipated.

Statement 15: GB Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (9) Civils – culverts – unit costs were significantly lower than the previous year. This is mainly due to the mix of projects this year compared to the previous year. Projects completed in the previous year included work required to replace a partially collapsed asset at Starcross culvert. Volumes delivered in 2013/14 were about 10 per cent lower than the previous year and were in line with the assumptions in the Delivery Plan update 2012. Total units delivered in the control period were within 2 per cent of the volumes set out in the Delivery Plan update 2012.
- (10) Civils – retaining walls – the lower unit costs in the current year (less than half of those in the previous year) was mostly due to the type of project delivered in the current year compared to the previous year. As noted in the previous year's Regulatory Financial Statements, the mix of projects in 2012/13 resulted in higher than average unit rates. Last year, there were notably expensive unit rates in a project at Cornholme compared to those projects completed in 2013/14, such as North Dulwich Upside brink work repairs. The lower sample of projects in the current year also helped cause such a large unit cost reduction. Volumes were significantly lower than the previous year. Over the control period there was around 25 per cent more units delivered than forecast in the Delivery Plan update 2012 which was mostly due to additional units being delivered in 2011/12 arising from a single large-scale replacement project.
- (11) Civils – earthworks – unit costs have increased by nearly 60 per cent compared to the previous year. Last year's unit rate was around 20 per cent higher than the 2011/12 rate. As noted in the prior year's Regulatory Financial Statements this was mostly due to a number of projects that were re-profiled from 2012/13 into 2013/14 which had high unit rates associated with them. As a result of the adverse weather in the year and the impact on the railway network there were a number of emergency projects that had to be undertaken (such as Comondale Embankment, Ockley Up side Embankment, Quarry Line Emergency Repairs, Stone House emergency works). In such instances the requirement for immediate replacement resulted in higher unit costs as it is often impractical for projects to be planned in a manner to deliver in an optimal unit cost. Partly as a result of these emergency works (and partly due to the re-profiling of certain projects from 2012/13 to the current year) there was an increase of around 25 per cent in the number of volumes delivered. Total volumes delivered in the control period were marginally (4 per cent) lower than the level set out in the Delivery Plan update 2012.
- (12) Signalling – re-signalling unit costs were in line with the previous year whilst volumes have increased by more than 15 per cent. This earned volume increase is mainly a result of the planned renewals profile for control period 4, which had many of the large/complex re-signalling schemes developed over the initial years of the control period and then commissioned in years four and, in particular, five. Substantive amount of spend in the year took place on schemes such as East Sussex resignalling, Nottingham Station re-control, Walsall-Cannock and Farnham area resignalling. Many of these schemes have built up to their commissioning date in the current year and have, therefore, incurred a significant proportion of their cost, which has increased the earned volume percentage in year.

Statement 15: GB Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (13) Signalling - Level crossing renewals – MCB Type - the unit cost has increased due to the transition of many more complex schemes into production for intended completion prior to the end of the control period, which have therefore seen a substantial ramp up in spend, particularly those associated with major re-signalling schemes such as Ely-Norwich, Walsall-Cannock and Poole to Wool; the like of which historically deliver at a significantly higher unit rate than more standard - and sometimes like-for-like - renewals. There was also substantial activity relating to the automation of crossings to support the National Operating Strategy, which came in at a higher unit rate due to the complexity of the scope and sites involved. Increase in volumes reflected the increased level of physical commissionings in 2013/14 compared to the prior year. This increase was largely planned and relates to the required gestation period for many substantive re-signalling schemes commenced early in control period 4 and intended for completion in 2013/14 which included a number of level crossing renewals within the larger work packages. Other additional volume timed to supplement larger Network Rail strategic objectives, such as the National Operating Strategy.
- (14) Telecoms – Large concentrator – there was no activity reported in the previous year and so no unit cost to compare to. There was only one large concentrator delivered in the year which does not give a meaningful indication of the usual unit cost.
- (15) Telecoms – DOO CCTV – unit costs are consistent with the previous year, with a minor increase present. The Delivery Plan update 2012 assumed a reduction in the volumes between years four and five of the control period. However, the decrease was higher than expected. As a result, the level of volumes delivered in the control period was lower than planned. This is mostly a result of a project in Anglia being deferred into control period 5 due to extended tendering process and stakeholder management in order to achieve the most cost effective delivery solution.
- (16) Telecoms – PETS/ Level Crossing – total volumes delivered in the control period were about three-quarters of those expected in the Delivery Plan update 2012. Unit costs were considerably higher than the previous year. As noted in the prior year's Regulatory Financial Statements the 2012/13 unit costs benefitted from the mix of projects in that year. Unit costs in 2013/14 were in line with those in 2011/12.
- (17) Telecoms – Small signal box concentrator – volumes were lower than the previous year and lower than planned for the control period as some units were deferred from the current year into control period 5. Unit costs were in line with the previous year.
- (18) Telecoms – Customer info systems – volumes were noticeably higher in 2013/14 than the previous year which was mostly due to a low delivery of volumes in 2012/13. The lower 2012/13 volumes was noted in the prior year's Regulatory Financial Statements and was expected in the Delivery Plan update 2012. Total volumes for the control period were in line with the levels anticipated in the Delivery Plan update 2012 (3% higher). Unit costs were significantly lower than 2012/13 which, as noted, in the 2012/13 Regulatory Financial Statements was due to the relatively small number of units delivered in 2012/13 which distorted the unit rates in that year.
- (19) Telecoms – Long line address system – volumes were 6 per cent higher than the previous year. This is partly due to projects originally planned for 2012/13 being deferred into 2013/14, notably on Northern Rail sites. Unit rates were in line with the prior year.

DISAGGREGATED FINANCIAL INFORMATION - ENGLAND & WALES AND SCOTLAND

Statement 1: England & Wales Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual ⁽¹⁾	Adjusted PR08	Difference	Actual
Income ⁽¹⁾	6,025	6,024	1	30,164	30,120	44	6,017
Expenditure							
Controllable opex ⁽²⁾	973	725	(248)	4,613	3,955	(658)	878
Non-controllable opex	492	430	(62)	2,268	2,049	(219)	462
Maintenance	868	1,031	163	5,020	5,578	558	934
Schedule 4 & 8	355	137	(218)	1,136	839	(297)	260
Renewals	3,364	1,948	(1,416)	12,784	11,875	(909)	2,530
Enhancements	2,701	678	(2,023)	9,317	8,370	(947)	1,992
Financing costs	1,307	1,559	252	6,956	7,097	141	1,392
Corporation tax	(5)	10	15	6	25	19	-
Rebates	110	-	(110)	266	-	(266)	3
Total expenditure	10,165	6,518	(3,647)	42,366	39,788	(2,578)	8,451

Notes:

- (1) Income does not include £155m recognised through the opex memorandum mechanism, including £48m earned through volume incentives (refer to Statement 10).
- (2) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £63m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income in the year was in line with the determination and favourable for the control period mostly due to favourable electricity traction and stations income partly offset by lower property and freight revenue. These variances are set out in more detail in Statement 6a Statement 6a.
- (3) Controllable opex was higher than the PR08 in both 2013/14 and the full control period in line with the Delivery Plan 2009. Controllable opex in the current year includes a financial penalty of £48m levied by the ORR due to inadequate train performance and a further £21m committed to improving train performance and the passenger experience. Controllable opex costs are set out in more detail in Statement 7a.

Statement 1: England & Wales Summary regulatory financial performance continued

In £m 2013/14 prices unless stated otherwise

- (4) Non-controllable operating costs were more expensive than the Regulator's determination assumed for both the current year and the full control period largely due to higher electricity expenses and cumulo (property) rates. This is set out in more detail in Statement 7a.
- (5) Maintenance costs were lower than the PR08 in both 2013/14 and over the control period as Network Rail delivered greater efficiencies than the Regulator assumed in its determination. These savings are presented in more detail in Statement 8a(1).
- (6) Net Schedule 4 & 8 costs in both the year and control period were higher than the PR08 mostly due to Schedule 8 performance penalties as overall train punctuality was adverse to the regulatory targets for most of the control period. This is set out in more detail in Statement 10.
- (7) Renewals expenditure is set out in more detail in Statement 9a and is higher than the PR08 for 2013/14 largely due to re-profiling of expenditure within the control period and the delivery of additional outputs and projects over and above those set out by the Regulator in its PR08 determination. Underspend compared to the PR08 in earlier years of the control period has been caught up in later years of the control period. Expenditure in the control period is higher than the Regulator's assumption largely due to the delivery of projects not included in the PR08 determination.
- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 for the current year mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Crossrail and Electrification). Expenditure for the control period is higher than the PR08 assumed as Network Rail has invested over £2.5bn delivering schemes over and above those specified and funded in the determination, which is partly offset by work on some programmes being deferred to control period 5, notably Thameslink.
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) During the year rebates were paid to the Department for Transport to allow them to share in Network Rail's financial outperformance. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement. Over the control period £264m was returned to the Department for Transport. The value of Rebates for the control period also includes amounts paid to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This system was designed to incentivize collaborative working practices between Network Rail and its track customers by allowed them to benefit from the financial outperformance achieved by Network Rail.

Statement 2a: England & Wales RAB - regulatory financial position

In £m 2013/14 prices unless stated otherwise

A) Calculation of the England & Wales RAB at 31 March 2014

	Actual	Adjusted PR08	Difference
Opening RAB for the year (2006/07 prices)	33,021	35,713	(2,692)
Indexation to 2012/13 prices	7,319	7,903	(584)
Opening RAB for the year (2012/13 prices)	40,340	43,616	(3,276)
Indexation for the year	1,068	1,155	(87)
Opening RAB (2013/14 prices)	41,408	44,771	(3,363)
Renewals	2,949	1,948	1,001
Enhancements PR08	1,429	680	749
Non-PR08 enhancements (added to the RAB)	1,170	-	1,170
Total Enhancements	2,599	680	1,919
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(622)	(622)	-
Amortisation	(1,610)	(1,610)	-
Adjustments for missed regulatory outputs	318	-	318
Closing RAB at 31 March 2014	45,042	45,167	(125)

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative England & Wales RAB at 31 March 2014

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4 Total
Opening RAB (2013/14 prices)	35,796	37,313	38,420	40,216	41,408	35,796
Adjustments for the actual capex outturn in CP3	(73)	-	-	-	-	(73)
Renewals	2,403	2,071	2,058	2,045	2,949	11,526
Enhancements PR08	1,017	940	1,483	1,421	1,429	6,290
Non-PR08 enhancements (added to the RAB)	248	215	430	377	1,170	2,440
Total Enhancements	1,265	1,155	1,913	1,798	2,599	8,730
Renewals & Enhancements funded from RFF	(469)	(510)	(566)	(594)	(622)	(2,761)
Amortisation	(1,609)	(1,609)	(1,609)	(1,609)	(1,610)	(8,046)
Adjustments for missed regulatory outputs	-	-	-	(448)	318	(130)
Closing RAB	37,313	38,420	40,216	41,408	45,042	45,042

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until and ex-post assessment has been completed by the Regulator after the end of the control period.

Statement 2a: England & Wales RAB - regulatory financial position continued

In £m 2013/14 prices unless stated otherwise

- (2) Renewals – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible for inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI). In addition, under the rules of the rolling RAB mechanism any variance to the determination due to re-profiling of expenditure results in an adjustment for capitalised financing so that Network Rail does not benefit from (or is penalised for) this re-profiling.
- (3) Enhancements – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Crossrail and Electrification) were not included as part of the PR08 but have been approved in principle for RAB addition by the ORR.
- (6) In 2012/13 the RAB was reduced to reflect missed regulatory outputs, namely failure to achieve the ORR's punctuality targets for the following railway sectors: Long Distance, London South East and Regional. The reduction represented the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. This year, the regulator has widened their scope of the required RAB reductions to consider the value of other missed outputs. It has also limited the financial affect on the RAB to 25 per cent of the value of the adjustment to be consistent with the Regulatory Accounting Guidelines' rules for the treatment of financial outperformance. This has resulted in a net increase in the RAB this year of £194m as shown in the above table, as the opening RAB included a decrease of £448m relating to train performance at the end of 2012/13. The reductions included in the RAB valuation for the whole control period are as follows:

Adjustment	£m	Note
Train performance	122	a
Sustainability – fencing and drainage	27	b
Double count within the above	(27)	c
Robustness of plant & machinery efficiencies	7	d
Enhancement milestones	1	e
Total RAB reduction for missed outputs	130	

- a. Train performance – as noted above the reduction represents the estimated amount of PR08 funding Network Rail has received for improving train performance that has not resulted in the required improvements. Although an adjustment has been made to reflect ORR's view of the impact of the extreme weather in 2013/14, this calculation does not take into account any of the other factors outside of Network Rail's reasonable control which adversely impacted on performance, such as Network trespass.
- b. Sustainability – fencing and drainage – the ORR believe that Network Rail should have spend more in the current control period on fencing and drainage in order to manage these assets sustainably. This view is informed by Network Rail's Strategic Business Plan for control period 5 which suggests a significant increase in the planned expenditure on these assets

Statement 2a: England & Wales RAB - regulatory financial position continued

In £m 2013/14 prices unless stated otherwise

- c. Double count within the above – this represents the regulator's belief that the savings made by Network Rail which resulted in lower than expected train performance are also reflected in the sustainability of fencing and drainage. Therefore, this adjustment is to remove this double count so that Network Rail is not penalised twice for the same under delivery.
- d. Robustness of plant & machinery efficiencies – following previous efficiency reviews undertaken by an independent third party, Arup, the regulator has a concern that all of the efficiencies claimed by Network Rail in conjunction with the delivery of plant & machinery renewals are not sufficiently justified.
- e. Enhancement milestones – this refers to a project milestones missed on the St Pancras-Sheffield line speed improvements programme, Strategic Freight Network, Western Improvement Programme and EGIP which all impacted train passengers. The adjustment reflects either 2 or 5 per cent of the cost of the project (depending upon the impact on the train passenger) which resulted in the missed milestone.
- f. Network availability – this regulatory output was ahead of the regulatory target for 61 of the 65 reporting periods in the control period, but in the final four reporting periods of the control period the measure was below the expected target. An adjustment is made to the RAB based on information and calculations provided by the regulator.

Note that the final value of these adjustments is subject to the ORR's Annual Financial and Efficiency Assessment.

- (4) In the recently published PR13 Determination the ORR have noted that they will reduce the control period 5 opening RAB by £1.2bn to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it is not included in the RAB valuation included in these Regulatory Financial Statements.

Statement 2b: England & Wales RAB - reconciliation of expenditure

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/14	Actual	Adjusted PR08	Difference
Renewals						
Renewals in the determination			1,968	11,880	11,880	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	4	(14)	(10)	(298)	(259)	(39)
CP3 deferrals to CP4	-	13	13	279	224	55
Seven day railway	28	2	30	60	56	4
Other adjustments to PR08	168	1	169	219	(26)	245
Adjusted PR08 determination (renewals)	200	2	2,170	12,140	11,875	265
Adjustments for the PR08 RAB roll forward policy						
Adjustments for acceleration/ (deferrals) of expenditure within CP4 ⁽¹⁾	844	(27)	817	(182)	-	(182)
Adjustments for deferral of expenditure to CP5	(188)	(5)	(193)	(193)	-	(193)
IOPI index adjustments	(99)	(32)	(131)	(757)	-	(757)
Adjustments for efficient over spend	369	12	381	692	-	692
25% retention of efficient over spend	(92)	(6)	(98)	(178)	-	(178)
Other adjustments to amounts to be logged up to RAB	3	-	3	4	-	4
Total Renewals (added to the RAB)	1,037	(56)	2,949	11,526	11,875	(349)
Adjustment for inefficient overspend			234	797	-	797
Adjustment for capitalised financing			56	231	-	231
Adjustment for 25% retention of efficient over spend			92	169	-	169
Other adjustments to reconcile to total expenditure			33	61	-	61
Total actual renewals expenditure (see Statement 9a)			3,364	12,784	11,875	909

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: England & Wales RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/14	Actual	Adjusted PR08	Difference
Enhancements						
Enhancements in PR08			1,376	9,057	9,057	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(4)	14	10	298	259	39
CP3 deferrals to CP4	-	5	5	96	80	16
Change in funding arrangements	(52)	(9)	(61)	(221)	(198)	(23)
Other adjustments to PR08	(86)	(43)	(129)	(623)	(576)	(47)
Adjusted PR08 determination (enhancements)	(142)	(33)	1,201	8,607	8,622	(15)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for deferrals of expenditure within CP4 ⁽¹⁾	2,228	(67)	2,161	(371)	-	(371)
Adjustments for deferrals of expenditure to CP5	(1,735)	(41)	(1,776)	(1,776)	(252)	(1,524)
Adjustments for efficient under spend	(73)	(3)	(76)	(93)	-	(93)
25% retention of efficient under spend	18	1	19	23	-	23
Adjustments relating to enhancement funds	(100)	-	(100)	(100)	-	(100)
Total PR08 enhancements (added to the RAB)	196	(143)	1,429	6,290	8,370	(2,080)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	825	144	969	1,215	-	1,215
Non PR08 enhancements expenditure not qualifying for capitalised financing	201	-	201	1,225	-	1,225
Total non PR08 enhancements (added to the RAB)	1,026	144	1,170	2,440	-	2,440
Total enhancements (added to the RAB)	1,222	1	2,599	8,730	8,370	360
Adjustment for inefficient overspend			-	-	-	-
Adjustment for 25% retention of efficient over/under spend			(18)	(23)	-	(23)
Other adjustments to reconcile to total PR08 expenditure			-	(22)	-	(22)
Adjustment for capitalised financing			(1)	302	-	302
Non PR08 expenditure						
Third party funded schemes			233	1,471	-	1,471
Other adjustments to reconcile to total non-PR08 expenditure			121	330	-	330
Total actual enhancement expenditure (see Statement 3)			2,934	10,788	8,370	2,418

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: England & Wales RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

Memo item 1 - Outstanding non-capex RAB additions (cash prices)

	2009/10	2010/11	2011/12	2012/13	2013/14
Brought forward balance	4,129	4,003	4,048	4,105	4,071
Indexation for the year	12	189	209	123	109
Amortisation	(138)	(144)	(152)	(157)	(161)
Closing balance	4,003	4,048	4,105	4,071	4,019

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB value is considered to be provisional until and ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Agreed adjustments to the PR08 arising from, for example, adjustments to outputs, errors in the determination and changes in funding;
 - b. Deferrals/ acceleration of capital works within the control period and net deferrals/ acceleration of capital works into/ from control period 5;
 - c. Changes in input prices as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) Renewals – other adjustment to PR08 represents various other changes agreed with ORR including structures funding outlined in the Government's Autumn Statement 2011 and a reduction in operational property funding to reflect changes in franchise arrangements in Anglia.
- (4) Renewals - Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (5) Renewals – Adjustments for deferrals of expenditure to control period 5 refers to work postponed to future control periods. As this is not a genuine saving, the allowances in the PR08 not eligible for RAB addition under the Regulatory Accounting Guidelines. The amount includes plain line track, electrification and operational property projects.
- (6) Renewals - IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until at least September 2014. Once this is finalised, the control period 4 closing RAB will be revised and restated in the Regulatory Financial Statements for the year ending 31 March 2015. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period the IOPI index has increased by 11.1 per cent compared to the RPI equivalent figure of 17.2 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition (including the impact of capitalised financing) by £129m in the year and £755m for the control period.

Statement 2b: England & Wales RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (7) Renewals - Efficient overspend refers to projects where Network Rail delivered schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, the programme to improve asset management information, both of which will enable efficiency savings in control period 5 and beyond. Funding for these schemes were not included in the PR08. Under the terms of the Regulatory Asset Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects, with the other 75 per cent being eligible for addition to the RAB.
- (8) Renewals - Inefficient overspend reflects expenditure compared to the ORR allowances for renewals (after adjusting for net deferrals and agreed changes to the baseline in order to create a like-for-like comparison). This inefficient overspend is largely due to the impact of IOPI. As noted above, this has resulted in a reduction in the renewals allowance (£673m excluding capitalised financing) over the control period, which accounts for over 80 per cent of the Inefficient overspend for control period 4 reported in the above table.
- (9) Renewals - Other adjustments to reconcile to total expenditure shown in the above table largely relates to expenditure on renewals schemes which are ineligible for inclusion in the RAB. A number of projects were deferred from control period 3 to control period 4. The regulator reduced the control period 3 closing RAB to reflect these deferrals and also allowed Network Rail to add the expenditure onto the RAB once the projects had been completed. However, there were certain projects that whilst the ORR acknowledged that Network Rail needed to deliver the ORR were unwilling to allow the expenditure to be added to the RAB.
- (10) Enhancements - Other adjustments to PR08 refers to other changes to the baseline agreed with the Regulator with the most notable item being de-scoping of parts of the West Coast Main Line Committed Scheme (Stafford bypass and power supply upgrade).
- (11) Enhancements - Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (12) Enhancements - Adjustments for deferrals of expenditure to control period 5 refers to work postponed to future control periods. As this is not a genuine saving, the allowances in the PR08 not eligible for RAB addition under the Regulatory Accounting Guidelines. Over half of this deferral refers to the Thameslink programme.
- (13) Enhancements – Efficient underspend represents savings made against the PR08 allowance whilst still delivering the required outputs for control period 4. Efficient underspend is recognised on a net basis for PR08 projects. The efficient underspend is a net position of the portfolio reflecting efficiencies on certain projects (such as Reading and East Coast Mainline Improvements) partly offset by additional costs on other programmes (such as Performance Fund (HLOS) and Birmingham New Street gateway). This excludes any (in)/efficiencies on schemes with their own tailored protocol (Thameslink) and ring fenced funds (for example, Access for All, CP5 Development fund). Under the mechanics of the rolling RAB, Network Rail retains 25 per cent of outperformance through a notional RAB addition.

Statement 2b: England & Wales RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (14) Enhancements - Adjustments relating to funds refers to instances where network Rail has spend less on named funds (see Statement 3) than the PR08 allowances. These specific funds do not have definitive outputs associated with them and, therefore, any underspend against the regulatory allowance does not represent an efficient underspend and Network Rail cannot recognise any benefit from this reduced expenditure.
- (15) Enhancements – non-PR08 enhancements are schemes which were not included in the determination but have been identified since then. Expenditure on such projects is only eligible for addition to the RAB if approved by the ORR. The capital expenditure is adjusted for any additional income generated from the schemes so that amount included in the RAB represents the net financial cost to Network Rail. Expenditure on these types of schemes is set out in more detail in Statement 3.
- (16) Non-PR08 enhancements attract capitalised financing. This is to reflect the additional borrowing costs that Network Rail has incurred as part of the cost of constructing this new asset as these financing costs would not have been included as part of the Regulator's revenue calculation. For other non-PR08 enhancements, such as Crossrail, Network Rail is compensated for borrowing costs on an on-going basis meaning that no addition to the RAB for these financing costs is required.
- (17) Enhancements – Other adjustments to reconcile to total expenditure mostly refers to expenditure which is not eligible for addition to the RAB. As shown in Statement 3, Network Rail has spent £101m on Outperformance schemes, which is largely related to investment in the level crossing risk reduction programme, a scheme designed to remove level crossings from the network to improve public safety. There was no funding for this project in the regulatory settlement but Network Rail have funded this through its financial outperformance in the control period (refer to Statement 5). As noted above, income generated from non-PR08 enhancement schemes is deducted from the capital costs of the project to calculate how much is eligible for RAB addition. The Other adjustments line adds back this income to reflect the total level of expenditure shown in Statement 3.

Statement 2c: England & Wales Summary of RAB movements

In £m 2013/14 prices unless stated otherwise

A) Renewals RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	2,987	2,583	2,271	2,071	1,968	11,880
Deferrals from CP3	231	27	(4)	12	13	279
Delivery plan additions/ (reductions)	2	34	(9)	53	199	279
Delivery plan re-classifications	(72)	(77)	(66)	(73)	(10)	(298)
Adjusted PR08 determination	3,148	2,567	2,192	2,063	2,170	12,140
(Deferrals to)/ acceleration within CP4	(667)	(481)	155	(6)	817	(182)
Deferrals to from CP5	-	-	-	-	(193)	(193)
IOPI index adjustment	(81)	(40)	(324)	(181)	(131)	(757)
Other adjustments	-	1	-	-	3	4
Adjustments for efficient over spend	3	24	35	169	283	514
Total additions to RAB	2,403	2,071	2,058	2,045	2,949	11,526

B) Enhancements RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	1,718	2,329	1,886	1,748	1,376	9,057
Deferrals from CP3	83	(1)	4	5	5	96
Delivery plan reductions	(9)	(118)	(7)	(26)	(61)	(221)
Delivery plan re-classifications	72	73	(257)	(94)	(119)	(325)
Adjusted PR08 determination	1,864	2,283	1,626	1,633	1,201	8,607
(Deferrals to)/ acceleration within CP4	(843)	(1,347)	(143)	(199)	2,161	(371)
Deferrals to CP5	-	-	-	-	(1,776)	(1,776)
Adjustments for efficient (under)/ over spend	(4)	4	-	(13)	(57)	(70)
Other adjustments - Funds	-	-	-	-	(100)	(100)
PR08 determination additions to the RAB	1,017	940	1,483	1,421	1,429	6,290
Non-PR08 determination additions to the RAB	248	215	430	377	1,170	2,440
Total additions to RAB	1,265	1,155	1,913	1,798	2,599	8,730

Statement 3: England & Wales Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	371	584	213	2,540	3,451	911
Total Schemes covered by a tailored protocol or fixed price agreement	371	584	213	2,540	3,451	911
Funds						
CP5 development fund	3	28	25	63	63	-
NRDF (Network Rail Discretionary Fund)	102	59	(43)	273	293	20
Access for All	82	85	3	289	306	17
NSIP (National Stations Improvement Programme)	44	32	(12)	186	188	2
SFN (Strategic Freight Network)	101	24	(77)	212	220	8
Safety and environment fund	34	-	(34)	135	138	3
Adjustment due to change of funding from DfT - Access for All	(40)	(40)	-	(164)	(164)	-
Adjustment due to change of funding from DfT - NSIP (National Stations Improvement Programme)	(12)	(12)	-	(32)	(32)	-
Total Funds	314	176	(138)	962	1,012	50
Other PR08 funded schemes						
Performance fund (HLOS) ⁽¹⁾	86	26	(60)	253	131	(122)
Seven day railway fund ⁽¹⁾	126	76	(50)	207	246	39
Intercity express programme	24	52	28	62	231	169
King's Cross	17	17	-	383	388	5
Birmingham New Street gateway project	26	(11)	(37)	73	122	49
East Coast Mainline overhead line enhancement	5	-	(5)	32	44	12
St Pancras - Sheffield line speed improvements	31	10	(21)	62	79	17
Nottingham Resignalling	5	-	(5)	12	13	1
North London Line capacity enhancement	-	-	-	80	80	-
GSM-R on freight routes	-	-	-	-	-	-
Station security	-	3	3	13	21	8
Reading	91	94	3	526	610	84
Platform Lengthening - Southern	87	8	(79)	301	408	107
Southern Capacity	17	-	(17)	42	48	6
ECML improvements	174	56	(118)	436	588	152
Power supply upgrade	58	(70)	(128)	143	84	(59)
Western Improvements Programme	10	(15)	(25)	81	94	13
WCML Committed Schemes	77	108	31	272	350	78
Midlands Improvement Programme	9	(43)	(52)	37	52	15
Northern Urban Centres - Leeds	-	16	16	15	99	84
Northern Urban Centres - Manchester	5	1	(4)	40	103	63
Trans Pennine Express linespeed improvements	8	-	(8)	11	36	25
Unallocated Overheads	8	-	(8)	44	-	(44)
Total Other PR08 funded schemes	864	328	(536)	3,125	3,827	702
CP4 Delivery Plan	1,549	1,088	(461)	6,627	8,290	1,663
Schemes carried over from CP3						
WCRM	-	-	-	47	47	-
ERTMS	-	-	-	20	19	(1)
Cab fitment	-	-	-	14	14	-
Total Schemes carried over from CP3	-	-	-	81	80	(1)
Re-profiled expenditure due to programme deferral						
	-	(410)	(410)	-	-	-
Total PR08 funded enhancements (see Statement 2b)	1,549	678	(871)	6,708	8,370	1,662

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	201	-	(201)	508	-	(508)
Electrification	267	-	(267)	507	-	(507)
Northern Hub – Phase 1	21	-	(21)	36	-	(36)
Station Commercial Project Fund (SCPF)	65	-	(65)	78	-	(78)
Winter resilience	-	-	-	16	-	(16)
Nuneaton North Cord (TIF)	-	-	-	4	-	(4)
Mid tier accessibility	18	-	(18)	25	-	(25)
CP5 early start schemes	5	-	(5)	5	-	(5)
Swindon-Kemble line doubling	32	-	(32)	32	-	(32)
Reading	95	-	(95)	95	-	(95)
NEP – Midland Main Line	24	-	(24)	24	-	(24)
East-West rail	63	-	(63)	63	-	(63)
Walsall to Rugeley Trent valley electrification	5	-	(5)	5	-	(5)
East Kent re-signalling	6	-	(6)	6	-	(6)
High Speed development	6	-	(6)	6	-	(6)
Birmingham New Street	25	-	(25)	25	-	(25)
Other Government sponsored schemes	31	-	(31)	86	-	(86)
Total Government sponsored schemes	864	-	(864)	1,521	-	(1,521)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	4	-	(4)
Victoria Place shopping centre	11	-	(11)	110	-	(110)
Waterloo Retail development project	-	-	-	25	-	(25)
Kings Cross concourse	-	-	-	11	-	(11)
London Bridge retail development	8	-	(8)	15	-	(15)
Liverpool Street offices	9	-	(9)	9	-	(9)
Acquisition of freight sites	188	-	(188)	188	-	(188)
Mooring Lane, Hackney Arches re-development	7	-	(7)	7	-	(7)
Other income generating schemes	34	-	(34)	163	-	(163)
Adjustment for income generating schemes ⁽²⁾	(25)	-	25	(64)	-	64
Total Network Rail sponsored schemes (income generating)	232	-	(232)	468	-	(468)
Schemes promoted by third parties						
Virgin West Coast Car Parks	-	-	-	45	-	(45)
Evergreen 3	(23)	-	23	141	-	(141)
SSWT promoted schemes	-	-	-	36	-	(36)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	24	-	(24)
EMT promoted schemes	(3)	-	3	12	-	(12)
Southampton Airport Parkway Car Park	-	-	-	13	-	(13)
Chiltern Moor Street	-	-	-	14	-	(14)
SSWT ticket gates and vending machine	4	-	(4)	24	-	(24)
Southern promoted schemes	-	-	-	31	-	(31)
Nottingham hub	14	-	(14)	35	-	(35)
FGW promoted schemes	-	-	-	13	-	(13)
Virgin 11 car Pendolino on West Coast	-	-	-	12	-	(12)
Thameshaven Branch Re-doubling	(10)	-	10	-	-	-
Other schemes promoted by third parties	(9)	-	9	30	-	(30)
Adjustment for third party promoted schemes ⁽³⁾	(43)	-	43	(145)	-	145
Total Schemes promoted by third parties	(70)	-	70	294	-	(294)
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	58	-	(58)	101	-	(101)
Schemes with pay back period within the control period	-	-	-	16	-	(16)
Adjustment for income generating schemes and facility fees	68	-	(68)	209	-	(209)
Total enhancement expenditure not meeting ORR criteria for RAB addition	126	-	(126)	326	-	(326)

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Total Network Rail funded enhancements (see Statement 1)	2,701	678	(2,023)	9,317	8,370	(947)
Third party funded (PAYG)	233	-	(233)	1,471	-	(1,471)
Total enhancements (see Statement 2b)	2,934	678	(2,256)	10,788	8,370	(2,418)

Notes:

- (1) Performance Fund (HLOS) and Seven Day Railway fund were shown within the Funds section of Statement 3 last year. These have been re-classified following clarification provided by the Regulator.
- (2) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.
- (3) Within other schemes promoted by third parties is an adjustment for revenue received from schemes promoted by third parties as a direct result of completing such enhancements. For such schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance. The current year and the control period figure also includes £52m and £196m respectively received from the DfT for schemes previously funded through control period 4 RAB addition, within the Funds section.
- (5) Enhancement expenditure funded by Network Rail in the year was £2,701m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£2,934m) less the PAYG schemes (£233m).

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- (6) Enhancements in adjusted PR08 represent changes agreed with the regulator in the current year but may relate to previous years. Consequently, the relatively low adjusted PR08 allowance in the current year is a balancing figure to get the control period 4 total correct.
- (7) Overall, expenditure on PR08 enhancements was in line with the previous year, although there were movements between the individual programmes. Lower expenditure on certain programmes, particularly Reading (the previous year included work towards two major milestones – Key Output 1 and Key Output 2) and WCML Committed Schemes (less activity on Bletchley Remodelling and Power Supply Upgrade projects) have been counteracted by increased activity on other programmes, notably NRDF, Access for All, Performance fund and Seven day railway fund (as suitable projects have been identified and delivered to improve network accessibility, performance and availability). Spend on PR08-defined enhancements in the control period was some £1.7n lower than the Regulator assumed, which was mainly due to deferral of work (notably Thameslink) although there was also some financial outperformance. These variances are explored in more detail in the below paragraphs.
- (8) Schemes covered by a tailored protocol of fixed price agreement – for England & Wales this section only covers Thameslink (which has its own protocol framework between Network Rail and the Department for Transport which covers delivery, cost and performance). This programme was divided into three separate components with the objective of increasing the frequency with which services could operate on this part of the network. Spend in the year and across the control period is lower than the ORR expectation. This is due to activity being deferred until future control periods. The programme was originally expected to be completed early in control period 5 but has been re-phased until later which is reflected in the Regulator's funding settlement for control period 5. The total anticipated final cost of the Thameslink programme is expected to be in line with the allowances provided by ORR, so no outperformance (or underperformance) is expected over the life of the total programme and therefore no efficiency was recognised in control period 4.
- (9) Funds – the PR08 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific project output. The regulatory allowances and actual expenditure on these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlined the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB (refer to Statement 2b) and does not contribute to financial outperformance (refer to Statement 5). However, any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure and PR08 assumptions for the control period are set out below:
 - a. NRDF – lower levels of investment than planned as insufficient schemes meeting the eligibility criteria were developed. Network Rail has an obligation to make sure that the funding available in the PR08 is used as effectively as possible meaning that projects have to deliver suitable benefits before they are allowed to draw down from this fund.
 - b. Access for All – expenditure was higher than the PR08 due to the acceleration of schemes from control period 5 to control period 4. The early delivery of these schemes was approved by the ORR meaning there is no reduction in the RAB or financial outperformance for this additional expenditure.
 - c. SFN – overall costs have been lower than the ORR assumed mainly due to delivery difficulties on two projects: Southampton West Coast Main Line train lengthening and Ipswich Yard. The ORR has agreed to fund both of these projects through the control period 5 settlement.

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- d. Adjustments due to change of funding from DfT – during the control period, the Department for Transport funded certain Access for All and NSIP projects directly rather than the costs of these projects being added to the RAB. The values in the Access for All and NSIP headings in the table are shown gross of these adjustments to provide a like-for-like comparison to the PR08 allowances with the corresponding reduction in expenditure to be added to the RAB disclosed under this classification.

(10) PR08 funded schemes – the following notable variances between expenditure and PR08 assumptions for the control period are set out below:

- a. Performance fund (HLOS) – Network Rail invested heavily to improve train performance in the control period. Many of the benefits of this investment occurred too late to have a discernable impact in control period 4 but should facilitate improvements in the next control period. Network Rail utilised £39m of underspend on Seven day railway fund to help deliver these projects, thus reducing the internal overspend compared to available funding for the control period. This net overspend offsets some of the underspends delivered on other projects thus reducing the total enhancement additions to the RAB (refer to Statement 2b) and also reduces financial outperformance (refer to Statement 5).
- b. Seven day railway fund – Network Rail transferred £39m of the PR08 allowance for the control period to Performance fund to utilise Seven day railway funding not allocated to individual projects.
- c. Intercity express programme – the outputs of this included infrastructure ready to accept the operation of the Intercity Express trains being obtained for the industry under a train service provision contract by the DfT. Due to delays in the government procuring the appropriate rolling stock required many outputs of the scheme have been deferred from control period 4 resulting in the variance set out in the above table. As this variance has arisen from timing differences and not from efficient project delivery none of this is eligible for addition to the RAB (refer to Statement 2b) or considered to be financial outperformance (refer to Statement 3). The Regulators' determination for control period 5 includes an updated view of costs and outputs to be delivered based on an assumption of when the required rolling stock will be available.
- d. Kings Cross – the primary objective of this programme was to provide station capacity to accommodate the passenger demand at peak times and to provide a new Western concourse to incorporate retail and leisure facilities. As set out in the above table Network Rail was able to deliver this project for slightly less than the Regulator assumed thus generating some financial outperformance (refer to Statement 5).
- e. Birmingham New Street gateway project – in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies – notably Birmingham City Council. At the end of control period 4 the anticipated final cost of the project exceeds the currently agreed regulatory funding. A proportion of these additional costs (based on the percentage of actual/ planned expenditure on the total programme) has been used to reduce the net efficient underspend added to the RAB (refer to Statement 2b) and consequently reduces the financial outperformance reported by Network Rail (refer to Statement 5). The above table shows that expenditure in control period 4 was lower than the Regulator assumed and this has been due to changes in the project schedule.

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- f. East Coast Mainline overhead line enhancements – this project aimed to improve the infrastructure on the East Coast mainline to reduce the risk of severe delays arising from overhead line failures. The outputs of this project were achieved at a lower cost than the Regulator anticipated in its PR08 determination. These efficiencies resulted in financial outperformance (as reported in Statement 5) and RAB additions (refer to Statement 2b).
- g. St Pancras – Sheffield line speed improvements – this package of works encompassing track, signalling and junction remodelling was designed to reduce journey times by around 10 minutes. The savings illustrated in the above table were largely the result of activity being deferred until later control periods. Various asset improvement works require implementation before the timetable change can be implemented. As these savings have not arisen from more efficient delivery of the programme outputs this saving does not manifest itself in financial outperformance (as reported in Statement 5) or an addition to the RAB under the terms of the Regulatory Accounting Guidelines.
- h. Station Security – this project was largely around preventing vehicle incursions at the portfolio of managed stations. The above table shows an underspend in the control period compared to the Regulators' assumption which arose from a combination of deferral of work to control period 5 (relating to specific projects at five stations that have been delayed to coincide with other projects to minimise passenger disruption) and also from efficient delivery of the projects compared to the Regulator's expectation. These delivery efficiencies contributed to financial outperformance (as reported in Statement 5) and RAB additions (refer to Statement 2b), whereas the deferral of work has a neutral impact on financial outperformance and the RAB.
- i. Reading – this programme relates to improvements to the network in the Reading area to help support the introduction of the Crossrail initiative. At the end of control period 4 the anticipated final cost of the project is lower than the regulatory funding. A proportion of this saving (based on the percentage of actual/ planned expenditure on the total programme) has been included as efficient underspend added to the RAB (refer to Statement 2b) and contributes to the financial outperformance reported by Network Rail (refer to Statement 5).
- j. Platform Lengthening – Southern – this programme aimed to allow longer trains on key routes in the south east part of the network. The underspend in the control period compared to the regulatory assumptions arises from the deferral of some elements of the programme into control period 5 (these deferrals emerged after the publication of the control period 5 determination and so are not included in that document) and efficiency savings. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- k. Southern Capacity – this programme was designed to provide the necessary passenger capacity at Gatwick Airport, East Croydon and Seven Sisters stations as well as improving the operational robustness at Gatwick Airport. Control period expenditure was lower than the Regulator expected which was a combination of work deferred into control period 5 (which were identified after the ORR published their PR13 determination and related to parts of the Gatwick and East Croydon schemes) and efficiencies made by Network Rail in the delivery of the required outputs of the programme. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- l. ECML improvements – the ORR set out a number of projects in their determination to deliver passenger kilometre specifications, London capacity specifications and facilitate operational plans. Expenditure in the control period is £225m lower than the PR08 assumed. This is mostly due to changes in the scope of the project agreed with the Regulator (notably at Werrington junction) and deferrals of activity into future control periods but there are also some significant savings that Network Rail have secured in the project delivery. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- m. Power supply upgrade – this is a package of works in the south east which are necessary to support the Train lengthening – Southern programme and also encompasses the regenerative braking power project. As the above table shows Network Rail has spent more than the adjusted PR08 assumption across the control period and so there is financial underperformance on this programme in control period 4. A number of parts of this programme have been deferred into control period 5 (the funding available in control period 5 is set out in the Regulator's determination, although further deferrals have occurred since the PR13 was finalised) and the entire costs of delivering the outputs of this programme are now expected to exceed the funding set out in the PR08. Consequently, these inefficiencies are included in the calculation of financial outperformance (as reported in Statement 5) and limit the RAB additions arising from outperformance on other projects in line with the guidance presented in the ORR's Regulatory Accounting Guidelines (refer to Statement 2b).
- n. Western Improvements Programme – this includes defined schemes such as Barry-Cardiff Queen Street corridor, Cotswold line redoubling and Westerleigh Junction to Barnt Green linespeed improvements. Expenditure in the control period was lower than the regulatory allowance which was a combination of deferrals to control period 5 (the funding available in control period 5 for Barry-Cardiff Queen Street corridor is set out in the Regulator's determination) and efficiencies made by Network Rail. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- o. WCML Committed Schemes – this is a package of various specified smaller schemes aimed at improving capacity on this part of the network. Less than half of the original PR08 funding has been utilised in the control period, mainly due to deferral of major projects such as the Stafford bypass and the power supply upgrade, much of which has been reflected in the Adjusted PR08 figure in the above table. There have also been some efficiencies as Network Rail has been able to identify and deliver the schemes for a lower amount than the Regulator assumed. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).
- p. Midlands Improvement Programme – this programme covered Bromsgrove electrification, Redditch branch enhancements and linespeed improvements on the Wrexham to London Marylebone route as well as some additional train lengthening schemes. Spend was less than the regulatory allowance mainly because the delivery of the outputs of the project have been delayed until control period 5. This is mostly reflected in the control period 5 PR13 determination and the above Adjusted PR08 column. However, since the publication of the PR13 there has been additional deferral of projects and so costs to next control period. In addition, some efficiencies have been made on the programme. A proportion of these efficiencies are added to the RAB (refer to Statement 2b) and result in financial outperformance (as reported in Statement 5).

Statement 3: England & Wales Analysis of enhancement capital expenditure continued

In £m 2013/14 prices unless stated otherwise

- q. Northern Urban Centres – Leeds – this project is designed to deliver the infrastructure necessary to support the operational plans in the Yorkshire area. There has been minimal expenditure in the control period compared to the regulatory assumption. Most of the outputs associated with this scheme have not been delivered and so the saving does not manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.
- r. Northern Urban Centres – Manchester – this project is designed to deliver the infrastructure necessary to support the operational plans in the Manchester area. There has been limited expenditure in the control period compared to the regulatory assumption. Most of the outputs associated with this scheme have not been delivered and so the saving does not manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.
- s. Trans Pennine Express linespeed improvements – control period expenditure is lower than the PR08 assumed as work has been deferred until future control periods to align delivery of this programme to the timescales of the Northern Hub scheme. The saving compared to the PR08 does not, therefore, manifest itself in financial outperformance (as reported in Statement 5) or a benefit to the RAB.
- t. Unallocated overheads – this relates to general costs associated with the delivery of PR08 projects that cannot be practically assigned to individual projects. This net overspend offsets some of the underspends delivered on other projects.

(11) Non-PR08 RAB-funded enhancements expenditure in the year was more than two-and-a-half times higher than the previous year. Non-PR08 RAB-funded expenditure is broken down into the following categories:

- a. Government sponsored – increases in some of the larger programmes such as Electrification and Crossrail as well as expenditure on some new initiatives such as East West railway and other programmes that have been included as part of the control period 5 settlement. In addition, there has been a reclassification of activity from PR08 to non-PR08 for most of the costs of the Reading depot project, as the additional scope of this project is being funded through the ORR Investment Framework.
- b. Network Rail sponsored (income generating) – the increase compared to the prior year largely arose from the acquisition of freight sites.
- c. Schemes promoted by third parties – this category has a total negative value because, as noted above, the income generated from these type of schemes is removed from the capital costs of the project so that only the net financial cost to Network Rail is added to the RAB. In addition, some elements of the Evergreen 3 programme delivered in previous years were paid for directly by the customer this year, reducing the amount Network Rail could add to the RAB and increasing the Third party funded (PAYG) category.

(12) PAYG expenditure was 14 per cent less than the previous year. This was mainly due to higher amounts of expenditure on the Birmingham Gateway project in 2012/13 partly offset by the additional funding received from the DfT this year compared to the previous year for projects previously recognised as PR08 funded activity.

(13) Outperformance expenditure includes £55m in the year and £72m in the control period on Network Rail's level crossing risk reduction programme. This fund is used to accelerate delivery of safety improvements or closure at the highest priority level crossings and demonstrates Network Rail's drive towards a safety culture. This programme is not funded by the regulatory allowances but from Network Rail's financial outperformance achieved during the control period (as set out in Statement 5).

Statement 4: England & Wales Net debt and financial ratios

In £m cash prices unless stated otherwise

	2013/14			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt England & Wales at 31 March 2014						
Opening net debt	26,156	27,533	1,377	18,809	19,149	340
Income						
Fixed charges	(1,142)	(1,132)	10	(4,199)	(4,180)	19
Total variable charges (including EC4T)	(719)	(691)	28	(3,400)	(3,295)	105
Grant income	(3,492)	(3,487)	5	(17,531)	(17,597)	(66)
Total other single till income	(672)	(714)	(42)	(3,089)	(3,120)	(31)
Other income	-	-	-	-	-	-
Total income	(6,025)	(6,024)	1	(28,219)	(28,192)	27
Expenditure						
Controllable operating expenditure	973	716	(257)	4,315	3,675	(640)
Non-controllable operating expenditure	492	430	(62)	2,124	1,922	(202)
Maintenance expenditure	868	1,032	164	4,667	5,210	543
Schedule 4&8	355	137	(218)	1,078	780	(298)
Renewals expenditure	3,364	1,981	(1,383)	12,033	11,060	(973)
Enhancement expenditure	2,701	1,434	(1,267)	8,856	8,475	(381)
Total expenditure	8,753	5,730	(3,023)	33,073	31,122	(1,951)
Financing						
Interest expenditure on nominal debt - FIM covered	602	631	29	2,617	3,153	536
Interest expenditure on IL debt - FIM covered	212	210	(2)	861	812	(49)
Accretion on IL debt - FIM covered	273	320	47	2,095	1,285	(810)
Expenditure on the FIM	220	194	(26)	923	887	(36)
Total interest cost	1,307	1,355	48	6,496	6,137	(359)
Interest expenditure on nominal debt - unsupported	-	204	204	-	566	566
Interest expenditure on IL debt – unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,307	1,559	252	6,496	6,703	207
Corporation tax	(5)	10	15	6	25	19
Rebates	110	-	(110)	253	-	(253)
Other¹	(961)	-	961	(1,083)	1	1,084
Movement in net debt	3,179	1,275	(1,904)	10,526	9,659	(867)
Closing net debt	29,335	28,808	(527)	29,335	28,808	(527)

	2009/10	2010/11	2011/12	2012/13	2013/14
⁽¹⁾ Other					
Movements in working capital	(2)	(121)	(193)	(44)	(961)
Other	238	-	-	-	-

Statement 4: England & Wales Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Financial Ratios

	2009/10	2010/11	2011/12	2012/13	2013/14
Adjusted interest cover ratio (AICR)	1.77	1.94	2.15	1.99	1.67
FFO/interest	3.46	3.78	3.93	3.71	3.22
Net debt/RAB (gearing)	64.0%	63.5%	62.6%	64.8%	65.1%
FFO/debt	13.8%	13.5%	14.1%	13.0%	11.4%
RCF/debt	9.8%	10.0%	10.5%	9.5%	7.8%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%	5.2%	4.8%	4.7%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%	1.4%
FIM fee in %	0.8%	0.8%	0.8%	0.8%	0.8%
Average interest costs on nominal debt - unsupported	N/A	N/A	N/A	N/A	N/A
Average interest costs on IL debt (excl. accretion) - unsupported	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (2) PR08 represents original regulatory assessment of income and expenditure and does not reflect agreed adjustments to the determination that have emerged after the PR08 publication as this would necessitate reclassification of financing and debt assumptions in the PR08.

Comments:

- (1) Network Rail issues debt for the company as a whole and does not raise separate debt for its operations in England & Wales. A notional split of the debt was calculated from 1 March 2005, which is updated for all subsequent income and expenditure relating to England & Wales.
- (2) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2014. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (3) The above statement shows that the closing debt for the control period is £0.5bn (2 per cent) higher than that assumed by the Regulator. This was mostly due to:
 - a. Additional enhancement expenditure – as shown in Statement 3 Network Rail delivered projects worth more than £2.6bn (2013/14 prices) that the Regulator did not include in their funding settlement. This was partly offset by deferral of activity on some PR08 projects to future control periods (notably Thameslink)

Statement 4: England & Wales Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- b. Additional renewals expenditure – as noted in Statement 9a, Network Rail delivered projects worth £0.6bn that were not included in the original scope of the Regulator's determination, such as ORBIS, the construction of the National Centre at Milton Keynes and vehicle fleet purchases. In addition, there was additional delivery of structures works of £0.3bn which were authorised by government
 - c. Rebates – Network Rail paid out £0.3bn of rebates during the control period to allow stakeholders (mostly government, but also train operating companies, freight operating companies and open access operators) to share in Network Rail's financial outperformance
 - d. Opening debt – the above items are partly offset by the difference in opening net debt at the start of the control period compared to the Regulator's assumption of £0.3bn
 - e. Other – this is mostly due to working capital movements
- (4) Controllable opex is shown in more detail in Statement 7a.
- (5) Non-controllable opex is shown in more detail in Statement 7a.
- (6) Maintenance is shown in more detail in Statement 8a.
- (7) Schedule 4 & 8 is shown in more detail in Statement 10.
- (8) Renewals expenditure is shown in more detail in Statement 9a.
- (9) Enhancements expenditure is shown in more detail in Statement 3.
- (10) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.
- (11) Financing - the PR08 figures included in the above table for financing costs use the inflation rate assumptions at the time the PR08 was prepared to uplift 2008/09 prices to a cash basis. However, the outturn was different. By 2013/14, cumulative inflation since 2006/07 has been 25% compared to the ORR assumption of 20% meaning that the comparable 2013/14 PR08 interest allowance in the above table is understated. Although closing debt was higher than the Regulator's assumption, average debt during the control period was lower, contributing to the lower interest costs in the control period. Interest costs in the control period also benefitted from favourable commercial settlements. Significant variances to the prior year are set out below:
 - a. Interest expenditure on nominal debt – FIM covered was approximately 13 per cent higher than the previous year. Increases in the average levels of nominal debt and financial investments of approximately 14 per cent of this statement) were partly offset by a decrease in the interest rates associated with this level of debt of 10 basis points (as noted in part C) of this statement)

Statement 4: England & Wales Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- b. Interest expenditure on IL debt – average index-linked debt has increased by 8 per cent compared to the previous year. A corresponding increase in interest costs compared to 2012/13 would result in interest costs of £204m which is slightly less than the £212m included in the table above
- c. Expenditure on the FIM – this has increased by 11 per cent compared to the previous year reflecting an increase in average net debt of approximately 10 per cent. The 0.8 per cent rate payable under the FIM to the Department for Transport remains the same as 2012/13
- d. Accretion on IL debt – FIM covered was lower than in 2012/13 despite a higher volume of this type of debt (as shown in part C) of this Statement). This was mostly due to realigning the accretion calculations to be consistent with the method employed by Network Rail's agent banks and other financial institutions

(12) Other – the value in 2009/10 includes a £238m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.

(13) Financial ratios – ratios are defined as follows:

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(14) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 65.1 per cent (2013: 64.8 per cent). The ORR imposes regulatory limits on the debt to RAB gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the Great Britain limit in the revised Licence condition of 75.0 per cent for the current year.

(15) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including an assumption for steady state renewals. Network Rail's AICR for the year was 1.67 (2013: 1.99), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as business generated operational revenue is 67 per cent greater than the cash required to pay net financing costs.

Statement 5: England & Wales Financial performance statement

In £m 2013/14 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(3,980)	(4,360)	(9,902)	(209)	(18,451)
Adjustments in DP09 in 2009/10 prices	-	150	(713)	(63)	(626)
Inflation adjustment from 2009/10 to nominal prices	(419)	(478)	(1,249)	(12)	(2,158)
Adjusted DP09 in nominal prices	(4,399)	(4,688)	(11,864)	(284)	(21,235)
Actuals in nominal prices	(4,371)	(4,612)	(11,723)	(262)	(20,968)
(Under)/ out performance in nominal prices	28	76	141	22	267

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	25,103	(7,612)	(2,079)	(5,479)	-		9,933	(8,518)
Adjustments in DP09 in 2009/10 prices	648	1,846	-	2,110	-		4,604	3,978
Inflation adjustment from 2009/10 to nominal prices	1,653	(695)	(238)	(653)	-		67	(2,091)
Adjusted DP09 in nominal prices	27,404	(6,461)	(2,317)	(4,022)	-		14,604	(6,631)
Actuals in nominal prices	26,953	(6,322)	(2,123)	(3,367)	11		15,152	(5,816)
(Under)/ out performance in nominal prices	(451)	139	194	655	11	(59)	489	756

Statement 5: England & Wales Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

2013/14

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(707)	(763)	(1,643)	-	(3,113)
Adjustments in DP09 in 2009/10 prices	(15)	32	(1,169)	(80)	(1,232)
Inflation adjustment from 2009/10 to nominal prices	(137)	(180)	(549)	3	(863)
Adjusted DP09 in nominal prices	(859)	(911)	(3,361)	(77)	(5,208)
Actuals in nominal prices	(1,002)	(859)	(3,351)	(55)	(5,267)
(Under)/ out performance in nominal prices	(143)	52	10	22	(59)

Pot 2	Income	Enhancements	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	5,048	(1,525)	(481)	(1,359)	-		1,683	(1,430)
Adjustments in DP09 in 2009/10 prices	104	122	-	1,852	-		2,078	846
Inflation adjustment from 2009/10 to nominal prices	741	(260)	(89)	(524)	-		(132)	(995)
Adjusted DP09 in nominal prices	5,893	(1,663)	(570)	(31)	-		3,629	(1,579)
Actuals in nominal prices	5,613	(1,538)	(493)	(22)	-		3,560	(1,707)
(Under)/ out performance in nominal prices	(280)	125	77	9	-	(12)	(81)	(140)

Note:

- (1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period. FVA is measured on a "cash basis" and so does not include accretion on debt instruments.

Comments

- (1) FVA is reported on a 'gross' basis and excludes assessment of the impact of missing regulatory outputs. Network Rail recognises that a number of regulatory outputs for the control period have been missed which need to be considered when assessing Network Rail's performance in the control period. FVA includes the impact £48m for the financial penalty imposed for missed outputs for long distance train performance and a further £21m committed to improving train performance and the passenger experience. This is because these items result in a cash payment from (see below).
- (2) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's Delivery Plan 2009. This is adjusted so that the total financial outperformance can be measured against the Regulator's PR08 determination.

Statement 5: England & Wales Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

- (3) The above table shows that Network Rail have generated more outperformance in total than expected in the Regulator's determination in the control period.
- (4) In the current year the FVA generated was mainly due to non-controllable costs savings and from recognition of enhancements efficiencies. With the conclusion of the control period it was possible to undertake a full assessment of Network Rail's delivery of capital projects. These were largely offset by higher operating costs (including the provision for ORR financial penalty) and lower income (mostly due to Schedule 8 costs).
- (5) Operating costs financial underperformance in the year eliminates much of the outperformance included in the previous years' Regulatory Financial Statements. The current year includes a financial penalty of £48m levied by the ORR due to inadequate train performance and a further £21m committed to improving train performance and the passenger experience. The Regulator has decided to charge Network Rail £1.5m for every 0.1% shortfall in the long distance PPM result compared to the ORR regulatory target (which is modified for factors perceived to be outside of Network Rail's influence). This penalty is over and above the Schedule 8 costs incurred by Network Rail under the regulators' performance regime (which resulted in financial underperformance of over £450m). Operating costs this year also included the costs for management re-organisation and relocation of certain corporate functions to the National Centre in Milton Keynes which have caused financial underperformance in the year. Operating costs have contributed £28m of financial outperformance in the control period which represents less than 1 per cent saving against the post-efficient Delivery Plan 2009 baseline.
- (6) Maintenance costs for the control period were lower than assumed in the Delivery Plan 2009. This was achieved through a variety of contributory initiatives. These include the re-organisation of maintenance staff to provide common terms & conditions to allow for more efficient rostering and work planning, reducing overtime costs and allowing greater operational flexibility. Additional training and resource enabled more tasks to be taken in-house, reducing contractor and consultant costs. Financial outperformance of £76m in the control period represents savings of 2 per cent compared with the post-efficient Delivery Plan 2009 baseline.
- (7) Renewals outperformance for the control period represents the net position across the asset portfolio. There has been outperformance on a number of asset categories (such as operational property, signalling and track switches & crossings) which has offset higher than expected costs in areas such as plain line track unit costs and discretionary projects, including £70m invested by Network Rail in 2013/14 in initiatives to improve train performance in control period 5 and beyond. Deferral of activity into future control periods is not treated as financial outperformance.
- (8) Income in 2013/14 and the control period was lower than expected mainly as a result of higher Schedule 8 costs. The Delivery Plan 2009 assumed £nil performance income/ costs compared to costs of over £450m across the control period. Income was also adversely impacted by lower property sales as Network Rail has disposed of less of the railway network than planned and by lower EC4T income (which is offset by EC4T savings reported in non-controllable opex). Income also includes the recognition of amounts Network Rail is entitled to under the opex memorandum process (except volume incentives which are explicitly excluded). Income for the control period also includes savings on Schedule 4 costs mostly arising from better planning of possessions.
- (9) Enhancements portfolio has been delivered for less than the Delivery Plan 2009 assumed. Savings have been realised across a variety of programmes, such as Reading, ECML improvements and WCML Committed Schemes. This has been offset by additional expenditure in other projects. There were notable overspends on Birmingham New Street and Power Supply Upgrade. Deferral of activity into future control periods is not treated as financial outperformance.

Statement 5: England & Wales Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

- (10) Non-controllable opex savings in the year arose largely from lower traction electricity costs. Traction electricity costs are dictated by the market price for electricity. The estimated costs in the Delivery Plan 2009 were markedly different to the actual prices. Most of the traction electricity costs are passed onto the train and freight operators. Therefore, lower costs also results in lower financial performance in Income. Non-controllable costs also include higher than planned expenditure on Cumulo rates. Cumulo rates are the business rates that Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the Delivery Plan 2009 had been published. The Delivery Plan 2009 assumed a lower level of rates than the Valuation Office Agency decided and so the higher expense in the year and the total control period gives rise to financial underperformance. The Regulator recognises the limited control Network Rail has over Cumulo costs in control period 4 and so any difference between actual costs and those assumed in the determination are refunded to Network Rail through the Opex memorandum, which is included as part of Income.
- (11) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt during the control period have also contributed to lower interest expenses. Interest outperformance in the control period also benefits from the favourable settlement of a commercial claim (£54m) and gains on the re-structuring of finance leases (£23m). Interest only assesses over/under performance on nominal debt and does not include accretion on debt instruments.

Statement 6a: England & Wales Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference	Actual
Fixed charges	1,142	1,132	10	4,464	4,444	20	858
Variable charges							
Variable usage charge	152	141	11	734	694	40	151
Traction electricity charges	245	220	25	1,147	1,034	113	224
Electrification asset usage charge	9	8	1	45	41	4	9
Capacity charge	177	185	(8)	871	914	(43)	175
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	136	137	(1)	837	839	(2)	143
Schedule 8 net income	-	-	-	6	-	6	-
Total gross variable charge income	719	691	28	3,640	3,522	118	702
Total franchised track access income	1,861	1,823	38	8,104	7,966	138	1,560
Grant income	3,492	3,487	5	18,764	18,829	(65)	3,794
Total franchised track access and grant income	5,353	5,310	43	26,868	26,795	73	5,354
Other single till income							
Property income	142	206	(64)	665	802	(137)	141
Freight income	51	82	(31)	239	386	(147)	48
Open access income	24	23	1	125	113	12	24
Stations income	380	343	37	1,892	1,721	171	376
Depots income	61	52	9	295	258	37	59
Other	14	8	6	80	45	35	15
Total other single till income	672	714	(42)	3,296	3,325	(29)	663
Total income	6,025	6,024	1	30,164	30,120	44	6,017

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable by Network Rail under the Opex memorandum (including amounts earned through the volume incentive). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include rebates paid to stakeholders. These are disclosed separately in Statement 1.

Comments:

- (1) This Statement shows of Network Rail's income compared to the PR08. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.

Statement 6a: England & Wales Analysis of income continued

In £m 2013/14 prices unless stated otherwise

- (2) Fixed charges – for 2013/14 these are higher than the PR08 as Network Rail has worked with train operating companies to provide additional facilities and services which generate extra revenue for Network Rail. This has partly been offset by payments made to train operating companies under alliancing arrangements. Income is 33 per cent higher than the previous year which is consistent with the increase in the Regulator's income model. The PR08 settlement assumed increases in Fixed charges at the expense of Grant income as the control period progressed. Fixed charges for the control period were marginally higher than the Regulator assumed. Unfavourable movements on actual inflation (used to calculate fees paid by train operators) compared to assumed inflation (used to uplift the Regulator's determination from 2006/07 prices) and payments made to partners under the terms of alliancing contracts have been more than offset by additional revenue earned by offering services to operators over and above those set out in the Regulator's determination.
- (3) Variable usage charge – this was higher than the PR08 and the previous year as Network Rail provided an increased number of paths to franchised train operators to run more services for the travelling public. Better planning of capital and maintenance works also helped increase the availability of the network for operators to run trains. Variable usage charges for the control period were £40m higher than the PR08 as Network Rail provided more train paths to operators resulting in marginal income from track access.
- (4) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over these. In this respect traction electricity charges should be considered non-controllable income just as the traction electricity charges payable are classified as non-controllable opex in the PR08. Income is £21m higher than 2012/13 due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. Electricity traction costs were £13m higher compared to the previous year reflecting this increase in market rates. Both traction electricity income and costs were £25m higher than the PR08 determination for 2013/14. Income earned through Traction electricity charges for control period 4 were 11 per cent higher than the Regulator's determination with a corresponding 11 per cent underperformance in electricity costs (as shown in Statement 7a).
- (5) Capacity charge – although capacity charges were in line with the previous year they remain below the level assumed by the PR08 for the current year and the control period. This is because the PR08 did not take into account the impact of the new weekend discounts offered to the train operating companies. The Delivery Plan 2009 targets, Network Rail's response to the PR08, reflected these rates and so the result is nearly £50m lower over the course of the control period. ORR has indicated that Network Rail will be funded for this shortfall in control period 5 through the Opex memorandum (refer to Statement 10). Adjusting for the impact of the Opex memorandum, Capacity charges for the control period were higher than the Regulator expected as Network Rail provided additional train paths to operators, allowing them to provide additional services to the travelling public.
- (6) Grant income – grant income was lower than the previous year but in line with the Regulator's determination, with compensating amounts receivable through Fixed charges. Grant income in the control period was less than 0.5 per cent different to the PR08 determination which resulted in Network Rail underperforming the determination by £65m. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November RPI index for each year during 2009-14) and the rates used to calculate the grant payments which are a year in arrears (being the November RPI index for each year during 2008-13).

Statement 6a: England & Wales Analysis of income continued

In £m 2013/14 prices unless stated otherwise

- (7) Property income – although income is consistent with the previous year it is lower than the PR08 for the current year and the control period. The PR08 assumed that additional income would arise in the final two years of the control period from developments at Victoria and Euston stations. In the response to the ORR's PR08 draft determination (published June 2008) Network Rail stated that these developments (and hence the income) were unlikely to materialise in control period 4. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments through the Opex memorandum in recognition of this (refer to Statement 10). Lower property income has also arisen due to different expectations about market conditions when the PR08 was prepared compared to the current difficult economic environment which has adversely affected the demand for rental properties. Property income for the control period is 17 per cent lower than the determination assumed. Over half of this variance can be explained by the delayed Victoria and Euston stations developments with the remainder being a combination of over-optimistic assumptions about the market in the PR08 and Network Rail disposing of a smaller proportion of the rail network than the Regulator anticipated. Property income also benefitted from the favourable settlement of a large commercial claim during the control period.
- (8) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have had to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £59m during the control period, nearly 70% more than the Regulator assumed which is the result of Network Rail's problems in achieving train performance targets in the control period.
- (9) Open access income – income is in line with the PR08 assumption and the prior year. Total open access income for the control period is 11 per cent higher than the Regulator assumed as Network Rail offered additional train paths to operators to extra services to be provided for the travelling public.
- (10) Stations income – income is marginally higher than the previous year and 11 per cent higher than the PR08 for both the current year and 10 per cent for the control period. Around half of the control period outperformance of £171m arises from additional investment income as operators paid supplementary charges for incremental facilities provided by Network Rail at the stations leased to train operators. The remaining variance largely arises from additional income generated by Network Rail's portfolio of train stations that are managed directly (rather than leased to train operators). Income generated from retail offerings at managed stations has outperformed the Regulator's assumptions despite the challenging conditions that landlords of retail properties endured throughout the control period, which has witnessed increased retail unit vacancies on the high street and the demise of a number of high street retailers. Network Rail has been able to offer high quality facilities and services that the public are willing to pay a premium for.
- (11) Depots income – income is higher than the PR08 for the current year and the control period mostly due to additional investment framework income received in the year as operators paid incremental charges for additional facilities provided by Network Rail.
- (12) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). Income was in line with previous year. Total Other income for the control period is favourable to the PR08 assumption mostly due to additional ancillary services offered by Network Rail such as litter clearance at stations and insurance cover for train operators.

Statement 6b: England & Wales Analysis of other single till income

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference	Actual
Property Income							
Property sales income	41	90	(49)	119	229	(110)	40
Other property income	101	116	(15)	546	573	(27)	101
Total property income	142	206	(64)	665	802	(137)	141
Freight income							
Freight variable usage charge	50	68	(18)	227	325	(98)	46
Freight EC4T	5	7	(2)	25	29	(4)	4
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	5	5	-	19	24	(5)	4
Freight performance payments net income	(15)	(7)	(8)	(59)	(35)	(24)	(13)
Coal spillage charge (incl investment charge)	2	3	(1)	4	14	(10)	(7)
Freight only line charge	4	4	-	15	19	(4)	11
Freight connection agreements and other income	-	2	(2)	8	10	(2)	3
Total Freight income	51	82	(31)	239	386	(147)	48
Open access income							
Variable usage charge income	3	5	(2)	17	27	(10)	3
Other open access charges	21	18	3	108	86	22	21
Total open access income	24	23	1	125	113	12	24
Stations income							
Managed stations income							
Retail income	77	63	14	383	327	56	78
Advertising income	21	20	1	99	104	(5)	22
Concessions income	22	15	7	95	63	32	18
Long term charge	19	20	(1)	109	103	6	20
Qualifying expenditure	40	46	(6)	211	231	(20)	40
Other	5	-	5	22	-	22	5
Total	184	164	20	919	828	91	183
Franchised stations income							
Long term charge	128	134	(6)	662	668	(6)	127
Stations lease income	44	45	(1)	231	225	6	44
Other	24	-	24	80	-	80	22
Total	196	179	17	973	893	80	193
Total stations income	380	343	37	1,892	1,721	171	376
Depots income	61	52	9	295	258	37	59
Other income	14	8	6	80	45	35	15
Total other single till income	672	714	(42)	3,296	3,325	(29)	663

Statement 6b: England & Wales Analysis of other single till income continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 PR08	Difference	Actual	Cumulative PR08	Difference	2012/13 Actual
Memo: Investment framework income							
Stations related	23	-	23	88	-	88	22
Depot related	7	-	7	24	-	24	5
Track related	13	-	13	33	-	33	13
Total investment framework income	43	-	43	145	-	145	40

Memo item:

	2009/10	2010/11	2011/12	2012/13	2013/14	Cumulative
Hypothecated gains in year	-	26	20	-	-	46

Comments:

- (1) Property sales income – 2013/14 income is in line with the previous year but £48m lower than the PR08. The Regulator's determination assumed a lower level of property sales early in the control period but had assumed that economic conditions would be more conducive to maximising returns from property disposals as the control period progressed. The PR08 also assumed that property sales income would increase in the final two years of the control period from developments at Victoria and Euston stations. In the response to the ORR's PR08 draft determination (published June 2008) Network Rail stated that these developments (and hence the income) were unlikely to materialise in control period 4. ORR has agreed to fund Network Rail for any shortfall in property income from the delay in the Victoria and Euston developments through the Opex memorandum in recognition of this (refer to Statement 10). Property sales income for the control period is significantly lower than the Regulator assumed which is mostly due to the delayed developments at Euston and Victoria stations. The nature of property disposals means that there can be a conflict between obtaining the best value from a commercial perspective and selling sufficient properties to achieve targets. The Regulator's targets could have been accomplished but this would have meant disposing of parts of the railway network at sub-optimum prices, forestalling the disposal of these properties at a more favourable price in the future.
- (2) Other property income – this covers amounts earned through rental charges levied on Network Rail's commercial estate. Income is less than the PR08 due to different expectations about market conditions when the PR08 was prepared compared to the current difficult economic environment which has adversely affected the demand for rental properties. Other property income is in line with the previous year.
- (3) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £59m during the control period, nearly 70% more than the Regulator assumed which reflects Network Rail's problems achieving train performance targets in the control period. Compensation payments were also affected by external factors such as cable theft, which is thought to have caused over £7m of payments under the compensation framework.

Statement 6b: England & Wales Analysis of other single till income continued

In £m 2013/14 prices unless stated otherwise

- (4) Open access income – income is in line with the PR08 assumption and the prior year. Total open access income for the control period is 11 per cent higher than the Regulator assumed as Network Rail was able to offer additional train paths to operators to provide extra services for the travelling public.
- (5) Stations income – income is marginally higher than the previous year and 11 per cent higher than the PR08 for both the current year and the control period. Around half of the control period outperformance of £171m was due to additional investment income as operators paid supplementary charges for incremental facilities provided by Network Rail at stations leased to train operators. The remaining variance largely arises from additional income generated by Network Rail's portfolio of train stations that are managed directly (rather than stations leased to train operators). Income generated from retail offerings at managed stations has outperformed the Regulator's assumptions despite the challenging conditions that landlords of retail properties endured throughout the control period, which has witnessed increased retail unit vacancies on the high street and the demise of a number of high street retailers. Network Rail has been able to offer high quality facilities and services that the public are willing to pay a premium for.
- (6) Depots income – income is higher than the PR08 for the current year and the control period mostly due to additional investment framework income received in the year as operators paid incremental charges for additional facilities provided by Network Rail.
- (7) Other income – this mostly relates to income generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited). Income was in line with previous year. Total Other income for the control period is favourable to the PR08 assumption mostly due to additional ancillary services offered by Network Rail such as litter clearance at stations and insurance cover from train operators.

Statement 6c: England & Wales Analysis of income by operator

In £m 2013/14 prices unless stated otherwise

Franchised Train Operating Companies

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Arriva Trains Wales						
Variable Usage Charges	3.5	3.1	3.2	3.3	3.3	16.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	4.6	4.1	4.1	4.2	4.2	21.2
Fixed Charges	52.4	52.3	49.8	53.7	72.4	280.6
Station Long Term Charges	-	9.9	9.9	10.0	10.0	39.8
Station QX	-	0.4	0.3	0.4	0.4	1.5
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	1.4	1.8	1.5	1.6	6.3
Total income	60.5	71.2	69.1	73.1	91.9	365.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
C2C						
Variable Usage Charges	2.4	1.8	1.8	1.8	1.9	9.7
Traction Electricity Charges	9.3	7.4	6.1	6.0	6.4	35.2
Electrification Asset Usage Charges	-	0.3	0.3	0.4	0.2	1.2
Capacity Charges	1.1	0.8	0.8	0.9	0.9	4.5
Fixed Charges	10.5	10.8	10.2	10.9	14.5	56.9
Station Long Term Charges	1.1	4.2	4.2	4.9	4.2	18.6
Station QX	-	0.2	0.2	0.1	0.2	0.7
Station Facility Charge	-	-	0.1	-	-	0.1
Other Charges	-	1.2	1.1	1.4	1.2	4.9
Total income	24.4	26.7	24.8	26.4	29.5	131.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Chiltern						
Variable Usage Charges	1.1	1.3	1.5	1.8	0.4	6.1
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	2.4	2.0	2.3	2.4	2.4	11.5
Fixed Charges	18.7	19.0	24.8	30.3	35.4	128.2
Station Long Term Charges	-	4.6	4.6	4.7	4.7	18.6
Station QX	-	-	-	-	-	-
Station Facility Charge	-	-	0.1	-	-	0.1
Other Charges	-	0.1	0.1	0.1	0.1	0.4
Total income	22.2	27.0	33.4	39.3	43.0	164.9

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Cross Country						
Variable Usage Charges	10.4	7.7	8.6	8.7	8.6	44.0
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	11.7	11.7	11.9	12.0	12.1	59.4
Fixed Charges	72.1	73.6	70.2	75.1	101.3	392.3
Station Long Term Charges	1.1	0.7	0.6	0.6	0.4	3.4
Station QX	2.4	2.4	2.7	2.7	2.2	12.4
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total income	97.7	96.1	94.0	99.1	124.6	511.5

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
East Coast Main Line Rail						
Variable Usage Charges	19.7	17.4	19.7	21.0	19.7	97.5
Traction Electricity Charges	22.0	16.7	17.2	19.0	20.9	95.8
Electrification Asset Usage Charges	1.1	1.1	1.1	1.2	1.2	5.7
Capacity Charges	4.7	4.9	5.4	6.0	5.6	26.6
Fixed Charges	49.0	48.3	47.7	50.1	66.9	262.0
Station Long Term Charges	1.1	7.0	12.0	8.5	8.5	37.1
Station QX	1.3	1.8	2.1	2.4	1.9	9.5
Station Facility Charge	-	-	0.5	-	0.1	0.6
Other Charges	-	2.4	4.5	1.5	1.8	10.2
Total income	98.9	99.6	110.2	109.7	126.6	545.0

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
East Midlands						
Variable Usage Charges	7.0	7.1	7.2	7.4	7.5	36.2
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	16.4	16.5	16.5	16.6	16.8	82.8
Fixed Charges	45.3	46.5	44.3	47.5	63.9	247.5
Station Long Term Charges	-	10.3	9.1	8.4	8.7	36.5
Station QX	-	0.1	0.2	0.3	0.3	0.9
Station Facility Charge	-	0.3	0.5	1.1	1.3	3.2
Other Charges	-	6.2	4.2	6.3	6.0	22.7
Total income	68.7	87.0	82.0	87.6	104.5	429.8

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
First Capital Connect						
Variable Usage Charges	5.8	5.7	6.0	6.4	6.4	30.3
Traction Electricity Charges	31.5	25.4	20.8	24.1	27.3	129.1
Electrification Asset Usage Charges	1.1	0.9	1.0	1.1	1.2	5.3
Capacity Charges	14.1	14.1	14.3	14.7	14.8	72.0
Fixed Charges	30.2	29.8	27.5	29.1	39.0	155.6
Station Long Term Charges	2.4	12.6	30.3	12.0	13.8	71.1
Station QX	4.6	3.8	3.8	4.3	4.0	20.5
Station Facility Charge	-	0.4	0.9	0.7	0.8	2.8
Other Charges	-	1.8	9.3	2.7	2.7	16.5
Total income	89.7	94.5	113.9	95.1	110.0	503.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
First Great Western						
Variable Usage Charges	17.5	17.8	16.9	17.5	17.7	87.4
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	29.3	31.0	29.2	29.6	29.3	148.4
Fixed Charges	79.1	80.2	76.4	81.5	109.2	426.4
Station Long Term Charges	1.1	18.9	12.6	19.3	19.6	71.5
Station QX	2.4	2.6	2.3	2.3	2.2	11.8
Station Facility Charge	-	-	0.2	-	1.9	2.1
Other Charges	1.1	8.7	4.2	-	9.0	23.0
Total income	130.5	159.2	141.8	150.2	188.9	770.6

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Greater Anglia ⁽⁵⁾						
Variable Usage Charges	-	-	1.8	11.0	11.3	24.1
Traction Electricity Charges	-	-	5.6	25.7	29.1	60.4
Electrification Asset Usage Charges	-	-	0.2	1.6	1.7	3.5
Capacity Charges	-	-	1.5	10.4	10.5	22.4
Fixed Charges	-	-	7.7	53.9	72.3	133.9
Station Long Term Charges	-	-	-	-	2.9	2.9
Station QX	-	-	-	-	2.6	2.6
Station Facility Charge	-	-	0.2	1.1	1.7	3.0
Other Charges	-	-	0.6	3.9	4.0	8.5
Total income	-	-	17.6	107.6	136.1	261.3

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
London Midland						
Variable Usage Charges	4.7	4.6	4.6	4.9	5.1	23.9
Traction Electricity Charges	22.1	13.1	8.9	12.6	14.2	70.9
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7	0.7	3.7
Capacity Charges	15.1	14.1	14.1	14.6	15.3	73.2
Fixed Charges	33.9	34.7	33.1	35.4	47.7	184.8
Station Long Term Charges	1.1	11.5	11.3	16.0	10.2	50.1
Station QX	4.6	4.5	4.3	4.5	3.2	21.1
Station Facility Charge	-	0.2	0.2	-	0.2	0.6
Other Charges	-	3.1	1.7	3.0	3.0	10.8
Total income	82.6	86.4	78.8	91.7	99.6	439.1

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
London Overground						
Variable Usage Charges	-	0.5	0.8	1.0	0.4	2.7
Traction Electricity Charges	2.4	2.7	2.7	2.9	3.5	14.2
Electrification Asset Usage Charges	-	-	0.1	0.1	0.1	0.3
Capacity Charges	-	0.2	0.2	0.3	1.1	1.8
Fixed Charges	4.6	4.5	4.3	4.6	6.3	24.3
Station Long Term Charges	-	2.3	3.0	3.8	2.7	11.8
Station QX	-	0.2	0.3	0.4	-	0.9
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.5	0.2	-	0.5	1.2
Total income	7.0	10.9	11.6	13.1	14.6	57.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Merseyrail						
Variable Usage Charges	1.1	0.6	0.6	0.6	0.7	3.6
Traction Electricity Charges	5.9	5.0	4.0	3.9	5.8	24.6
Electrification Asset Usage Charges	-	0.1	0.1	0.1	0.1	0.4
Capacity Charges	-	-	0.1	0.1	0.1	0.3
Fixed Charges	8.1	8.8	8.4	8.1	12.1	45.5
Station Long Term Charges	-	5.1	3.0	2.9	4.7	15.7
Station QX	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.6	0.4	0.4	0.7	2.1
Total income	15.1	20.2	16.6	16.1	24.2	92.2

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Northern						
Variable Usage Charges	4.6	4.0	4.1	4.2	4.3	21.2
Traction Electricity Charges	7.0	4.9	3.7	4.0	4.8	24.4
Electrification Asset Usage Charges	-	0.2	0.2	0.2	0.2	0.8
Capacity Charges	4.6	5.0	5.0	5.2	5.3	25.1
Fixed Charges	90.9	91.0	86.6	93.5	126.2	488.2
Station Long Term Charges	1.1	16.5	9.7	16.7	15.8	59.8
Station QX	2.4	2.9	2.9	2.8	2.8	13.8
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	4.1	5.5	3.1	4.2	16.9
Total income	110.6	128.6	117.7	129.7	163.6	650.2

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
National Express East Anglia ⁽⁵⁾						
Variable Usage Charges	10.5	9.4	8.9	-	-	28.8
Traction Electricity Charges	31.5	30.1	19.5	-	-	81.1
Electrification Asset Usage Charges	1.1	1.4	1.2	-	-	3.7
Capacity Charges	10.5	10.0	8.3	-	-	28.8
Fixed Charges	53.6	53.5	42.7	-	-	149.8
Station Long Term Charges	1.1	17.2	18.5	-	-	36.8
Station QX	2.4	2.6	2.4	-	-	7.4
Station Facility Charge	-	0.3	4.9	-	-	5.2
Other Charges	-	4.0	2.2	-	-	6.2
Total income	110.7	128.5	108.6	-	-	347.8

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Scotrail						
Variable Usage Charges	1.2	0.1	0.6	0.6	0.6	3.1
Traction Electricity Charges	1.2	(0.2)	-	-	-	1.0
Electrification Asset Usage Charges	-	-	0.1	0.1	0.1	0.3
Capacity Charges	-	(0.1)	0.1	0.1	0.1	0.2
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	1.8	-	-	-	1.8
Station QX	-	0.4	-	-	-	0.4
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.4	-	-	0.1	0.5
Total income	2.4	2.4	0.8	0.8	0.9	7.3

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
South Eastern						
Variable Usage Charges	8.1	7.7	8.3	8.4	8.3	40.8
Traction Electricity Charges	40.7	35.9	28.2	29.5	33.7	168.0
Electrification Asset Usage Charges	1.1	0.5	0.6	0.6	0.6	3.4
Capacity Charges	11.6	11.3	11.8	11.5	11.5	57.7
Fixed Charges	60.5	61.9	58.8	63.1	85.0	329.3
Station Long Term Charges	3.5	26.2	25.7	36.0	24.4	115.8
Station QX	5.9	5.0	5.3	5.3	4.4	25.9
Station Facility Charge	-	0.1	0.1	-	0.1	0.3
Other Charges	-	7.9	4.1	7.5	7.3	26.8
Total income	131.4	156.5	142.9	161.9	175.3	768.0

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
South West Trains						
Variable Usage Charges	14.1	13.5	13.2	12.5	11.9	65.2
Traction Electricity Charges	50.0	41.2	30.1	26.2	36.2	183.7
Electrification Asset Usage Charges	1.1	0.6	0.6	0.7	0.7	3.7
Capacity Charges	7.0	6.2	6.2	6.2	6.2	31.8
Fixed Charges	65.2	65.8	62.0	66.2	88.8	348.0
Station Long Term Charges	1.1	23.6	28.9	35.4	20.5	109.5
Station QX	3.5	3.6	3.5	3.5	3.5	17.6
Station Facility Charge	4.7	6.6	7.0	9.5	7.9	35.7
Other Charges	1.1	7.2	3.6	-	6.8	18.7
Total income	147.8	168.3	155.1	160.2	182.5	813.9

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Southern						
Variable Usage Charges	9.4	8.5	8.3	8.6	8.7	43.5
Traction Electricity Charges	37.2	36.8	26.2	27.6	32.9	160.7
Electrification Asset Usage Charges	1.1	0.5	0.5	0.6	0.6	3.3
Capacity Charges	16.4	15.4	15.2	15.3	15.1	77.4
Fixed Charges	47.6	48.2	45.4	48.3	65.1	254.6
Station Long Term Charges	2.4	16.5	19.0	24.0	15.1	77.0
Station QX	4.6	5.7	4.9	3.3	0.5	19.0
Station Facility Charge	-	0.2	-	-	0.6	0.8
Other Charges	-	1.6	1.1	1.2	1.5	5.4
Total income	118.7	133.4	120.6	128.9	140.1	641.7

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Transpennine						
Variable Usage Charges	4.6	4.0	4.3	4.2	4.2	21.3
Traction Electricity Charges	-	-	-	-	0.1	0.1
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	2.3	2.5	2.5	2.5	2.5	12.3
Fixed Charges	29.2	29.7	28.1	29.9	40.2	157.1
Station Long Term Charges	1.1	3.8	2.6	4.2	3.8	15.5
Station QX	2.4	1.2	1.4	1.5	1.3	7.8
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	0.1	0.1
Total income	39.6	41.2	38.9	42.3	52.2	214.2

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Virgin West Coast						
Variable Usage Charges	25.5	25.5	25.9	28.5	29.8	135.2
Traction Electricity Charges	37.1	33.2	29.0	35.9	40.1	175.3
Electrification Asset Usage Charges	1.2	1.8	1.8	2.1	2.1	9.0
Capacity Charges	24.4	22.8	22.8	22.9	22.6	115.5
Fixed Charges	74.5	75.1	70.7	76.6	101.9	398.8
Station Long Term Charges	2.4	9.8	6.4	10.6	9.0	38.2
Station QX	4.6	4.8	4.9	5.1	3.1	22.5
Station Facility Charge	4.6	6.6	4.3	-	7.7	23.2
Other Charges	-	0.1	-	-	0.1	0.2
Total income	174.3	179.7	165.8	181.7	216.4	917.9

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Consolidated Non-Franchised Train Operators						
Variable Usage Charges	3.5	4.0	3.1	3.5	3.0	17.1
Traction Electricity Charges	-	3.1	3.0	3.4	3.7	13.2
Electrification Asset Usage Charges	3.5	-	-	-	-	3.5
Capacity Charges	-	0.7	0.7	-	0.9	2.3
Fixed Charges	18.8	17.3	21.6	17.6	18.1	93.4
Station Long Term Charges	-	-	0.7	1.8	1.2	3.7
Station QX	-	-	0.1	0.1	0.1	0.3
Station Facility Charge	-	-	-	-	-	-
Performance regime	1.3	(2.4)	(1.7)	(2.5)	(2.8)	(8.1)
Other Charges	1.1	(1.5)	0.5	-	-	0.1
Total income	28.2	21.2	28.0	23.9	24.2	125.5

Statement 6c: England & Wales Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2011/12	2012/13	2012/13	2013/14	CP4
Consolidated Freight Operating Companies						
Variable Usage Charges	47.6	39.0	44.1	47.2	50.1	228.0
Traction Electricity Charges	5.8	4.8	4.3	4.2	4.8	23.9
Capacity Charges	4.6	3.5	3.7	3.9	4.1	19.8
Performance Regime	(9.4)	(11.5)	(10.8)	(13.2)	(14.5)	(59.4)
Freight Only Line & Coal Spillage Charge	2.4	4.2	4.7	3.7	5.7	20.7
Freight Connection Agreements and Other Income	3.5	0.5	0.5	2.4	0.1	7.0
Total income	54.5	40.5	46.5	48.2	50.3	240.0

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the above tables do not include any payments made to operators under the Efficiency Benefit Sharing Mechanism. Total payments under this mechanism are reported in Statement 1.
- (3) No PR08 comparison has been provided by the ORR for this schedule.
- (4) Station long term charges in 2009/10 did not include income from franchised stations.
- (5) During 2011/12 the train operator franchise for Anglia changed from National Express East Anglia to Greater Anglia. Therefore, the results for National Express East Anglia are lower for 2011/12 compared to 2009/10 and 2010/11. For Greater Anglia income is higher in 2012/13 than 2011/12 as it includes a full year's worth of income.

Statement 7a: England & Wales Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽¹⁾	Cumulative Adjusted PR08	Difference
Controllable operating expenditure						
Signaller staff costs	206	166	(40)	1,090	900	(190)
Non-signaller staff costs	641	475	(166)	3,130	2,576	(554)
Staff incentives	49	-	(49)	251	-	(251)
Other employee related costs	136	53	(83)	542	284	(258)
Pensions	66	61	(5)	378	362	(16)
Consultants/contractors/agency (incl ORR financial penalty)	214	81	(133)	662	440	(222)
Insurance and claims	36	64	28	250	348	98
Accommodation, office, property	118	92	(26)	542	496	(46)
Information management	51	38	(13)	238	207	(31)
Other	168	144	(24)	989	773	(216)
Total gross controllable operating expenditure	1,685	1,174	(511)	8,072	6,386	(1,686)
Less:						
Other operating income	(132)	(86)	46	(763)	(465)	298
Own work capitalised	(580)	(363)	217	(2,696)	(1,966)	730
Total controllable operating expenditure	973	725	(248)	4,613	3,955	(658)
Non-controllable operating expenditure						
Traction electricity costs	263	237	(26)	1,245	1,117	(128)
Cumulo rates	133	101	(32)	527	473	(54)
British Transport Police costs	70	64	(6)	360	321	(39)
Rail Safety and Standards						
Board levy	8	9	1	42	45	3
ORR fees (incl. ORR Licence fee and the railway safety levy)	18	18	-	94	90	(4)
Other (i.e. CIRAS fees)	-	1	1	-	3	3
Total non-controllable operating expenditure	492	430	(62)	2,268	2,049	(219)
Total operating expenditure	1,465	1,155	(310)	6,881	6,004	(877)

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentive figures of £19m, and a decrease in pension expense of £44m. These costs are now reported within Maintenance costs.

Comments:

- (1) Network Rail's costs are categorised between Operating costs (as shown in the above table) and Maintenance costs (refer to Statement 8a). Operating costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2014.

Statement 7a: England & Wales Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (2) Signaller staff costs – costs are 5 per cent lower than the previous year mostly due to a reduction in signaller headcount. Also, the comparative year included higher overtime costs due to the extra usage of the network caused by the London Olympics and Paralympics in summer 2012. Reducing signaller staff numbers is the main strategy for reducing Signaller staff costs. Savings from headcount reduction more than offset management's decision to award signallers above inflation pay rises. Expenses for the year are significantly higher than the Regulator's determination assumed. The main way Network Rail can reduce costs in line with the 16.4% that the PR08 assumed by 2013/14 would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base. However, initiating such wide ranging plans takes time. Signaller staff costs for the control period are 21 per cent higher than the determination assumed as a result of the above inflation pay rises granted to staff and the difficulty in achieving the efficiencies contained in the determination
- (3) Non-signaller staff costs – these costs are 6 per cent higher than the prior year mainly due to an increase in non-signaller staff headcount within Operations & Customer Services. These additional resources were used to deliver capital projects meaning that although staff costs increased, there was a corresponding increase in Own work capitalised. Over the control period expenditure on Non-signaller staff costs was over 20 per cent higher than the Regulator assumed. There was a number of contributory factors to this such as: increased delivery of capital projects in 2013/14 (there is a corresponding increase in Own work capitalised to reflect this); organisational changes such as the enhanced scope of Asset Management and devolution which have reconfigured Network Rail into a more agile organisation. Network Rail's Delivery Plan 2009 expected that Non-signaller staff costs would not achieve the Regulator's target.
- (4) Staff incentives – these costs are lower than the previous year as achievement against the incentive targets was lower this year, reflecting the difficulty Network Rail had in achieving performance targets. Like many organisations, Network Rail uses staff incentives as a key part of employee compensation in order to motivate and retain staff. The Regulator's determination assumed there would be no staff incentives payable in the year or control period, despite ORR having a licence condition (LC16) that requires Network Rail to have a management incentive plan for executive directors and other employees.
- (5) Other employee related costs – costs for the year are £59m higher than last year. This is mostly due to higher redundancy costs in 2013/14 as Network Rail reorganises its workforce to meet the financial challenges set out in the PR13 determination. Costs are higher than the PR08 regulatory settlement for both the current year and the control period. The in year variance is largely due to the redundancy costs noted above, and additional training and travel costs (partly associated with the move to the National Centre Milton Keynes). The higher costs for the control period are also driven by additional redundancy costs, as well as higher training and travel costs than the PR08 assumed.
- (6) Pensions – costs are in line with the previous year but are higher than the Regulator's determination for the current year and the control period. This was largely due to Network Rail not reducing headcount and staff costs as much as the Regulator expected (as noted above).

Statement 7a: England & Wales Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (7) Consultants/contractors/agency (incl ORR financial penalty) –these costs are £85m higher than the previous year. This is mostly due to the financial penalty levied by ORR for the missed performance targets on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period, parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, other external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £48m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, there were some additional costs recognised for the delivery of capital projects (matched by a credit in Own work capitalised). Finally, there were some extra costs relating to the various safety initiatives Network Rail is undertaking to help reinforce safety as a central objective of the company. Costs in 2013/14 and the control period are higher than the Regulator's allowance largely due to the ORR financial penalty noted above, higher agency staff costs, and additional consultants' costs to deliver capital works. These are partly offset by the higher than expected Own work capitalised in the above table.
- (8) Insurance and claims – costs are significantly lower than the PR08 for both the current year and the control period. This is mainly due to Network Rail changing its insurance arrangements so that in exchange for lower insurance premiums higher excess amounts were payable for each claim. This meant that a number of incidents previously covered by Network Rail's insurance arrangements now fell outside its scope (being below the excess), resulting in additional costs elsewhere, notably Schedule 8 (refer to Statement 10), Schedule 4, Renewals and Maintenance. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to replace damaged infrastructure.
- (9) Accommodation, office, property – expenses in the current year are £24m higher than 2012/13 and £26m higher than the Regulator's assumption. This increase is largely due to dilapidation provisions incurred in 2013/14. Expenditure in the control period was 9 per cent higher than the regulatory allowance, mostly due to the dilapidations provisions recognised in 2013/14.
- (10) Information management – costs in the year are in line with the previous year but significantly higher than the PR08 assumed, continuing the trend seen in previous years. The Regulator's determination assumed that Network Rail would be able to reduce its Information management costs by 16.4% over the course of the control period. However, Network Rail has had to spend more on the IT infrastructure required to support the company. This is partly due to additional renewals projects being delivered through Information management staff resulting in higher costs in this category offset by higher amounts in Own work capitalised.

Statement 7a: England & Wales Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (11) Other controllable costs – costs are around 14 per cent lower than the previous year. This was mainly a result of lower Private Party Costs (less work has been completed for third parties compared to the previous year – the income relating to this is included within other operating income in the above table which has decreased as a result of this) partly offset by additional expenditure on HLOS Performance and Seven Day Railway projects (£7m increase in 2013/14) as suitable projects were identified and approved for completion.
- (12) Other operating income – income in the year was £18m lower than the previous year. This was mostly the result of lower private party works (also reflected in Other above). Other operating income was over 50 per cent higher than the Regulator assumed for 2013/14. Contributing factors include additional managed stations income (larger car parks and more left luggage), higher recovery of utility costs (resulting from higher utility costs noted above in Other costs), private sidings income and disposal of rail (which contributed to the higher costs in Other). Over the control period Network Rail generated almost £300m more Other operating income than the Regulator assumed. This was largely a result of: additional private party works (which resulted in a corresponding increase in Other operating costs); additional recovery of other costs for works and services undertaken for third parties (such as private sidings recoveries and telecoms) which resulted in higher operating costs in other categories; and identifying additional commercial opportunities (such as increased managed stations income and additional litter clearance income).
- (13) Own work capitalised – this amount is higher than the PR08 for the current year and for the control period. The PR08 assumed both a lower level of costs and a lower level of costs recovered to capital projects than Network Rail's Delivery Plan 2009. More capital works have been delivered compared to the Regulator's assumption. This has resulted in higher costs in the categories within gross controllable operating expenditure in the above table. The level of Own work capitalised is approximately 11 per cent higher than the previous year. This is largely due to higher internal delivery of capital projects. As shown in Statement 3 and Statement 9a, capital expenditure was significantly higher this year than in 2012/13.
- (14) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs and traction electricity costs are driven by the prevailing market rate for these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in 2013/14 are £25m higher than the PR08 due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also £25m higher than the Regulator assumed. Total costs for the control period are 11 per cent higher than the PR08 determination due to higher market electricity prices than assumed. This is substantially negated by an 11 per cent favourable variance within electrification income (refer to Statement 6a).
- (15) Cumulo rates – these are 13 per cent higher than the previous year. Cumulo rates are the business rates Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. The Regulator's determination assumed a lower level of rates than the Valuation Office Agency determined and so the expense in the year and the control period is higher than the PR08. As Cumulo rates are set by a third party and outside Network Rail's influence they are considered to be non-controllable. The Regulator recognises this and any difference between actual costs and those assumed in the determination are included in the Opex memorandum (refer to Statement 10).

Statement 7a: England & Wales Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (16) British Transport Police – costs in the current year are 5 per cent higher than the previous year mostly due to additional costs for a dedicated cable theft team within the British Transport Police. Cable theft has been a significant blight on performance (both train and freight) during the control period and cost nearly £50m in performance penalties (as well as significant costs for repair and replacement of cables) so Network Rail has invested in additional resource to combat these risks. Costs for the control period and the current year are noticeably more than the Regulator's assumption. This was partly due to the extra cost of battling cable theft and also from Network Rail's unwillingness to cut British Transport Police services which could endanger the travelling public.
- (17) ORR fees – under the terms of its network licence, Network Rail pays the Regulator an annual licence fee. The amounts paid to the Regulator over the control period were higher than the Regulator assumed when setting the PR08. Network Rail is compensated for this additional cost through the Opex memorandum (refer to Statement 10).

Statement 7b: England & Wales Analysis of operating expenditure by activity

In £m 2013/14 prices unless stated otherwise

	CP3			CP4				
	2006/07	2007/08	2008/09	2009/10 ⁽¹⁾	2010/11	2011/12	2012/13	2013/14
Controllable operating expenditure								
Human resources								
Functional support	18	23	25	23	27	26	26	25
Training	28	31	31	29	29	20	19	19
Graduates	4	4	2	2	1	2	2	2
Apprenticeships	6	6	10	10	8	6	6	6
Other	12	10	7	12	11	12	7	4
Total	68	74	75	76	76	66	60	56
Information management								
Support	4	4	12	14	9	9	6	7
Projects	11	7	3	7	4	4	4	2
Licences	63	61	56	56	62	50	47	44
Other	4	1	-	6	1	-	-	-
Total	82	73	71	83	76	63	57	53
Operations & customer services signalling	206	219	225	229	218	217	215	206
Operations & customer services non-signalling								
MOMS	32	34	34	32	31	30	29	22
Control	37	35	40	41	36	34	33	35
Performance	19	22	20	21	14	23	22	27
Planning	17	16	17	20	20	18	18	16
Managed stations	22	21	15	12	12	19	19	20
Other	76	63	53	104	115	84	95	107
Total operations & customer services costs	409	410	404	459	446	425	431	433
Finance	20	18	19	25	31	32	28	19
Contracts & procurement	5	5	-	-	-	-	9	8
Strategic Sourcing	-	-	45	42	46	42	-	-
Planning & development	6	10	10	15	13	12	13	12
Safety & sustainable development	4	2	2	2	3	4	10	14
Other corporate services	32	36	38	38	40	31	45	46
Commercial property	46	44	49	50	91	81	83	95
Infrastructure Projects	(7)	(3)	(8)	(2)	-	16	(28)	(50)
Route asset management	-	-	-	-	-	-	10	-
Route Services	-	-	-	-	-	-	-	11
Asset management & Engineering/Asset heads	41	43	43	54	50	93	130	125
National delivery service	8	15	13	13	11	16	6	3
Group/central								
Pensions	135	134	124	4	2	2	-	1
Insurance	124	82	53	60	62	3	73	32
Redundancy/reorganisation costs	8	1	31	26	14	42	4	61
Staff incentives	39	62	59	4	4	3	(7)	4
Corporate costs capitalised	(39)	(38)	(51)	(4)	-	(2)	-	-
Maintenance/Opex reclassification	(24)	(40)	(67)	-	-	-	-	-
Wayleaves/West Coast feeder stations	28	27	26	1	-	-	-	-
Accommodation & Support recharges	-	-	-	-	(64)	(60)	(28)	(3)
Fleet vehicle recharges	-	-	-	-	-	(8)	(16)	(18)
ORR financial penalty for missed regulatory outputs	-	-	-	-	-	-	-	69
Other	13	6	28	35	16	4	(2)	2
Total controllable operating expenditure	998	961	964	981	917	865	878	973

Statement 7b: England & Wales Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the control period 4 data. These changes have resulted in a decrease in the cumulative staff incentive figures of £19m, and a decrease in pension expense of £44m. These costs are now reported within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human Resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area. In 2013/14 further reductions arose from staff being de-centralised and moved to routes (the corresponding costs are now shown in 'Route Services'). Human resources expenses in the current and previous year include £2m per year relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (4) Information management – costs are £4m lower than the previous year. This is mostly due to an 8 per cent decrease in the average number of staff compared to the prior year, with the majority of the decrease arising in agency staff, who are generally more expensive. This saving is partly offset by lower levels of costs capitalised due to a reduced number of staff working on the delivery of capex projects compared to the previous year.
- (5) Finance – the £4m decrease in costs in 2012/13 compared to 2011/12 is mainly due to the transfer of staff from Finance to Shared Services (included within the Other corporate services category). In the current year there was a further transfer of costs from Finance to 'Route Services' as central activities were moved Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service.
- (6) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £36m being switched that year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (7) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed to reflect the additional activities undertaken by this department (including re-working the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation. Costs in the current year are higher than the previous year due to additional corporate initiatives being undertaken to reinforce the message that workforce safety is a key priority for the company.

Statement 7b: England & Wales Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

- (8) Other corporate services – costs are in line with the previous year. In 2012/13 a transfer of staff and activities from Finance and Human Resource functions into Shared Services to help drive efficiencies resulted in increased costs within Other corporate services.
- (9) Commercial Property – costs are noticeably higher than the previous year due to amounts provided for commercial claims. Excluding these one-off costs, there has been a decrease of approximately 10 per cent. This has largely arisen from savings in lease and occupancy costs as operations migrate to the National Centre at Milton Keynes as well as higher left luggage and car park income as Network Rail offers additional services at stations to the public.
- (10) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. From 2012/13, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower costs in Infrastructure Projects) and higher costs in Group (as shown in the 'Accommodation & Support recharges line).
- (11) Route asset management – this was reported separately for the first time in the 2012/13 Regulatory financial statements. This reflects the move towards a more responsive local asset management organisational structure with activities being decided and implemented at source rather than centrally. This is part of Network Rail's strategy of devolving responsibilities to the operating routes to allow more effective decision making and drive efficiencies. Costs in the current year were lower than the previous year as most of the activity undertaken by these functions this year are either capital in nature and so fully capitalised (refer to Statement 7d) or relate to Maintenance activity (refer to Statement 8a).
- (12) Route services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. In the current year, the costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'
- (13) Asset management & Engineering/Asset heads – the variance to control period 3 is due to an increased headcount in these functions as a result of reorganising the business. The additional costs in 2012/13 compared to 2011/12 relate to the transfer of utility management from Strategic sourcing/ Contracts & procurement and the increased scope of Asset Management activities (as it moves towards a customer-focused, service-orientated organisation) partly offset by costs transferred to the Route asset management category. Costs in the current year are in line with the previous year with the slight decrease being due to a higher proportion of capitalised costs and activity classified as Maintenance costs compared to the previous year.
- (14) National Delivery Services – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.

Statement 7b: England & Wales Analysis of operating expenditure by activity Continued

In £m 2013/14 prices unless stated otherwise

- (15) Pensions – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by their function (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance (refer to Statement 8a).
- (16) Insurance – costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.
- (17) Redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies.
- (18) Staff incentives – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by the function/budget holder where that individual works (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance. Staff incentive costs are higher than the prior year as 2013/14 benefited from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- (19) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in control period 4 as noted above.
- (20) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the reclassification of costs between Maintenance and Controllable opex to mirror the funding arrangements in control period 3. No such adjustment is required in the current control period.
- (21) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in control period 4.

Statement 7b: England & Wales Analysis of operating expenditure by activity Continued

In £m 2013/14 prices unless stated otherwise

- (22) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects resulting in a reduction in gross Infrastructure Project costs.
- (23) Fleet vehicle recharges – rather than rent fleet vehicles from a third party, Network Rail has made the decision to purchase these assets. A notional charge is then made for the use of these vehicles to other parts of the business with the corresponding credit being recognised in Group. Whilst the purchase results in spending more on Renewals – plant & machinery in the control period (refer to Statement 9a) the cost savings generated over the life of the vehicles mean that purchasing the assets provides an overall economic benefit to the railway. The increase in this credit in the current year reflects the benefit of a full year of credits arising from purchases made in 2012/13.
- (24) ORR financial penalty for missed outputs – in May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, other external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, and asset failures all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £48m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. Under Network Rail's accounting policy for the disaggregation of central costs, England & Wales' proportion of the financial penalty has been calculated on the basis of train miles.

Statement 7c: England & Wales Insurance reconciliation

In £m 2013/14 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	127	127	13	96	-	68	-	40	-	53
Terrorism	-	-	3	-	-	-	4	5	-	8
Employer's liability	-	-	1	2	-	2	-	4	-	5
Stations & depots property damage, terrorism & public liability	-	-	3	2	-	2	-	4	-	7
Motor	-	-	1	2	1	1	-	3	-	4
Construction all risks	1	1	1	1	-	1	-	1	-	2
Other cover ⁽²⁾	-	-	2	-	-	-	-	1	-	3
Investment return	-	-	-	-	-	-	-	-	-	-
Total	128	128	24	103	1	74	4	58	-	82

Statement 7c: England & Wales Insurance reconciliation continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) Total insurance cost: $A + B + C = D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7d: England & Wales Cost of own work capitalised

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative ⁽¹⁾		
	Gross costs	Own costs recovered ⁽²⁾	Net costs	Gross costs	Own costs recovered ⁽²⁾	Net costs
Controllable operating expenditure						
Human resources	59	(3)	56	342	(8)	334
Information management	76	(23)	53	457	(125)	332
Operations & customer services	523	(90)	433	2,454	(260)	2,194
Finance	19	-	19	135	-	135
Strategic Sourcing	11	(3)	8	157	(10)	147
Planning & development	20	(8)	12	117	(52)	65
Safety & sustainable development	14	-	14	33	-	33
Other corporate services	50	(4)	46	209	(9)	200
Commercial property	107	(12)	95	448	(48)	400
Infrastructure Projects	311	(361)	(50)	1,611	(1,675)	(64)
Route asset management	38	(38)	-	79	(69)	10
Route Services	12	(1)	11	12	(1)	11
Asset management & Engineering/ Asset heads	158	(33)	125	760	(308)	452
National delivery service	7	(4)	3	104	(55)	49
Group/central	148	-	148	391	(76)	315
Total controllable operating expenditure	1,553	(580)	973	7,309	(2,696)	4,613

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.
- (2) Own costs recovered refers to gross operating costs transferred from a particular cost centre. This usually refers to costs which are capital in nature and so charged to renewals and enhancements projects but also includes operating costs re-charged to other parts of the business.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Human resources – in 2013/14 further reductions in gross and net costs arose from staff being de-centralised and moved to routes (the corresponding costs are now shown in 'Route Services'). Human resources expenses in the current year include £2m relating to Track & Train, the cross-rail industry paid work placement scheme led by Network Rail.
- (3) Information management – gross costs are £8m lower than the previous year. This is mostly due to an 8 per cent decrease in the average number of staff compared to the prior year, with the majority of the decrease arising in agency staff, who are generally more expensive. This saving is partly offset by lower levels of costs capitalised due to a reduced number of staff working on the delivery of capex projects compared to the previous year.

Statement 7d: England & Wales Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

- (4) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £25m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.
- (5) Finance – in the current year there was a transfer of costs from Finance to 'Route Services' as central activities were moved to under the control of Network Rail's operating routes in order to support the move towards a more devolved organisation to allow tighter control of costs and a better level of service. This resulted in a decrease in both gross and net costs, with own work capitalised remaining at £nil.
- (6) Safety & sustainable development – costs in the current year are higher than the previous year due to additional corporate initiatives being undertaken to reinforce the message that workforce safety is a key priority for the company.
- (7) Commercial property – both gross and net costs are noticeably higher than the previous year due to amounts provided for commercial claims. Excluding these one-off costs, there has been a decrease of approximately 10 per cent. This has largely arisen from savings in lease and occupancy costs as operations migrate to the National Centre at Milton Keynes as well as higher left luggage and car park income as Network Rail offers additional services at stations to the public.
- (8) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. This year, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower net costs in Infrastructure Projects) and higher costs in Group/ central. Gross costs are in line with the prior year.
- (9) Route asset management – gross costs in the current year are in line with the previous year but net costs are lower as a greater proportion of the costs incurred by these functions this year are directly related to capital activities.
- (10) Route services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. This is the first year that Route services has been disclosed as a separate function. The costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'.
- (11) Asset management & Engineering/Asset heads – net costs in the current year are in line with the previous year with the slight decrease due to a higher proportion of capitalised costs and activity classified as Maintenance costs. Gross costs are marginally (1%) higher than the previous year which reflects the additional scope of the function.

Statement 7d: England & Wales Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

(12) National Delivery Service – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.

(13) Group – gross and net costs are significantly higher than the previous year. This is due to:

- a. £57m redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies;
- b. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1% that it missed the regulatory punctuality target of 92.0% for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £48m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14.
- c. £11m staff incentive costs are higher than the prior year as the previous year benefitted from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.
- d. £25m accommodation & support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects which has resulting in a reduction in gross Infrastructure Project costs.

These additional costs have been partly offset by insurance savings. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.

Statement 8a (1): England & Wales Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽³⁾	Cumulative Adjusted PR08	Difference
Core Maintenance ⁽¹⁾						
Track	453	398	(55)	2,349	2,196	(153)
Structures	33	37	4	176	206	30
Signalling	146	121	(25)	817	660	(157)
Telecoms	24	55	31	210	316	106
Electrification	41	32	(9)	215	173	(42)
Plant & machinery	31	15	(16)	190	79	(111)
Operational property	-	-	-	1	-	(1)
Other	11	41	30	97	198	101
Total	739	699	(40)	4,055	3,828	(227)
Non-Core Maintenance						
Indirect costs	74	176	102	581	959	378
Other costs	55	156	101	384	791	407
Total	129	332	203	965	1,750	785
Total maintenance expenditure	868	1,031	163	5,020	5,578	558

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Comparing the PR08 allowances to the actual costs by activity does not provide a meaningful comparison as they do not compare like-for-like data. Since the PR08 was finalised, Network Rail have adapted their accounting and cost allocation in order to provide more accurate unit cost information. For example, some of the costs included as overheads (in Non-core Maintenance in the above table) in the determination are now directly attributed to individual maintenance jobs (part of Core Maintenance in the above table) in order to reflect a true picture of the underlying costs of different activities to allow management to make more informed decisions. Therefore, it is more relevant to consider Maintenance costs in totality
- (2) Overall, Maintenance costs were 7 per cent lower than the previous year as Network Rail continued the trend during the control period of delivering Maintenance efficiencies.
- (3) Average headcount increased by over 1 per cent compared to the previous year. However, the average staff cost per head decreased slightly as new employees were recruited more cheaply than the existing staff (such as the new apprentices). The extra resource available has also allowed for a reduction in overtime costs compared to the previous year. In addition, most of this extra resource was introduced to deliver capital works, which reduces the net Maintenance cost.

Statement 8a (1): England & Wales Summary analysis of maintenance expenditure continued

In £m 2013/14 prices unless stated otherwise

- (4) The costs of non-core Maintenance decreased by over £20m compared to the previous year. This was mainly a result of National Delivery Services (NDS) off-charging their costs to the rest of the business to incentivize optimal decision making on cost and procurement judgements. These additional costs were recognised across the business, including extra Maintenance costs in other non-core Maintenance functions.
- (5) Once more, costs are lower than the PR08 as efficiency savings are being made at a faster rate than that assumed in the determination. This is illustrated in Statement 12 which sets out the maintenance efficiency for the year compared to the original ORR assumption in the determination.
- (6) Total control period costs were lower than assumed in the PR08 as total Maintenance efficiencies were higher than the Regulator assumed. In addition, the savings made were at a faster rate than the PR08 allowances expected allowing the savings embedded in earlier years to reap rewards across the control period. Efficiencies in the control period have been made through a combination of organisational restructuring (which has allowed for more flexible activity schedules and working practices), reducing overheads through rationalisation and amalgamation of responsibilities, improved procurement of resources and numerous small local initiatives which have combined to realise significant savings.

Statement 8a (2): England & Wales Summary analysis of maintenance headcount by activity

	2010/11	2011/12	2012/13	2013/14
Core Maintenance				
Track	6,637	7,574	7,561	7,588
Structures	22	18	25	59
Signalling	3,522	3,378	2,982	2,983
Telecoms	601	464	533	529
Electrification	829	1,129	939	1,033
Plant & machinery	385	373	412	422
Operational property	301	258	254	249
Other	84	146	159	158
Total	12,381	13,340	12,865	13,021
Non-Core Maintenance				
Indirect costs	2,678	1,016	1,271	1,287
Other costs	-	-	-	-
Total	2,678	1,016	1,271	1,287
Total maintenance expenditure	15,059	14,356	14,136	14,308

Notes:

- (1) The above data records the headcount for functions specifically employed to deliver Maintenance activities only. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by these functions. Therefore, the two sets of data are not comparable.
- (2) The above data includes full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Comment:

- (1) Average headcount has increased by around 1.2 per cent compared to the previous year. A large part of this is due to establishing a maintenance electrification organisation in line with the Electrification enhancement programme.

Statement 8b (1): England & Wales Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU)

In £m 2013/14 prices unless stated otherwise

Actual spend in the year	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	2013/14	Total
Ashford	21	18	17	19	19	94
Bedford	28	25	18	18	16	105
Bletchley	34	29	26	26	25	140
Bristol	25	23	21	20	19	108
Brighton	27	24	22	20	22	115
Carlisle	23	18	21	26	21	109
Clapham	25	22	22	21	22	112
Cardiff	32	30	28	21	26	137
Croydon	24	21	21	18	20	104
Derby	21	18	21	21	19	100
Doncaster	17	16	23	21	21	98
Eastleigh	24	19	20	17	21	101
Hitchin	25	22	23	21	19	110
Ipswich ⁽⁴⁾	29	27	25	25	25	131
Leeds	30	26	25	24	16	121
Lincoln	14	13	1	-	-	28
Liverpool ⁽⁵⁾	25	19	15	20	20	99
London Bridge	23	20	18	21	17	99
London Euston ⁽⁶⁾	25	21	22	25	24	117
Manchester	32	28	28	26	26	140
Newcastle	25	24	24	21	19	113
Orpington	22	18	16	16	17	89
Plymouth	20	16	14	15	15	80
Preston	25	21	18	17	17	98
Reading	21	20	18	18	17	94
Romford	32	30	29	30	28	149
Saltley	25	23	22	22	22	114
Sandwell & Dudley	22	21	17	18	19	97
Sheffield	15	13	18	17	16	79
Shrewsbury	12	11	14	15	15	67
Stafford	22	21	18	21	20	102
Swindon	21	18	16	16	16	87
Tottenham	34	31	29	29	32	155
Warrington ⁽⁷⁾	35	29	28	21	19	132
Woking	25	23	22	22	23	115
York	21	18	16	15	19	89
Total MDU	881	776	736	723	712	3,828
Route HQ	21	21	22	33	31	128
Other HQ	110	113	40	37	21	321
Total HQ	131	134	62	70	52	449
Centrally managed						
Structures examinations	36	35	37	37	31	176
Major items of maintenance plant	12	14	12	13	4	55
Other	143	122	87	91	69	512
Total maintenance expenditure	1,203	1,081	934	934	868	5,020

Statement 8b (1): England & Wales Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (4) The operations of the Ipswich depot were reported as Colchester depot until the 2011/12 Regulatory financial statements.
- (5) The operations of the Liverpool depot were reported as Chester depot until the 2012/13 Regulatory financial statements.
- (6) The operations of the London Euston depot were reported as Stonebridge Park depot until the 2011/12 Regulatory financial statements.
- (7) The operations of the Warrington depot were reported as Crewe depot until the 2012/13 Regulatory financial statements.

Comment:

- (1) The Lincoln depot closed during 2011/12 and so the costs reported for that year are significantly lower than in previous years. No costs are reported for 2012/13 or 2013/14.
- (2) The costs incurred at each depot can vary significantly depending on the scope of activities undertaken at each location. This can vary based on the condition of the network in that area, the type of railway infrastructure (e.g. whether it includes electrification assets), the size of the region covered and local labour market conditions. Therefore, comparing the costs of one depot to another does not provide a meaningful comparison. Instead, route management monitor the costs of the depots compared to internal targets.
- (3) Costs incurred at the depot level decreased by approximately 1 per cent compared to the prior year. This was a lower rate of saving than across the remaining Maintenance cost categories. Savings were lower as efficiencies made were largely negated by additional costs being classified within the depot part of the organisation. By allocating a higher proportion of costs to the areas responsible for incurring them it incentivises optimal decision-making by management. Statement 8b(2) shows a decrease in staff numbers at depots. However, this is mostly due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact. Notable movements in depot costs compared to the previous year are explained below:
 - a. Eastleigh – increase mostly due to additional rail grinding costs undertaken to improve performance and movement of works delivery team to route HQ (decrease in headcount shown in Statement 8b(2)). In 2012/13 the works delivery team were profit making due to some additional services provided to customers.
 - b. Leeds - this decrease was mostly due to the reclassification of some of the activities of the Knottingley section to York depot, as reflected in the movements in headcount between these two depots in Statement 8b(2).
 - c. London Bridge – increased focus on cost control at this depot in the current year – the previous year included some one-off costs which inflate the prior year comparative.

Statement 8b (1): England & Wales Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) continued

In £m 2013/14 prices unless stated otherwise

- d. York - - this increase was mostly due to the reclassification of some of the activities of the Knottingley section from Leeds depot, as reflected in the movements in headcount between these two depots in Statement 8b(2).
- (4) Route HQ costs have decreased slightly compared to the previous year as the Maintenance organisation delivers efficiencies. Statement 8b(2) shows that headcount has increased compared to the previous year. As noted above, this is largely due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact.
- (5) Other HQ costs decreased significantly compared to the previous year. This is mainly a result of increased off-charging of HQ activity to the depots to better reflect the underlying costs of operations. This should enable improved management judgements as the costs are more reflective of the economic reality of decisions made.
- (6) Centrally managed costs have decreased in the previous year mainly as a result of National Delivery Services (NDS) recharging their costs to the rest of the business (including other cost centres within Maintenance) to create a more direct link between where activity is occurring and where the corresponding cost is recognised.

Statement 8b (2): England & Wales Summary analysis of maintenance headcount by Maintenance Delivery Unit (MDU)

	2009/10	2010/11	2011/12	2012/13	2013/14
Ashford	347	324	326	319	316
Bedford	421	428	397	317	300
Bletchley	556	510	437	366	366
Brighton	434	361	351	362	356
Bristol	391	379	366	351	358
Cardiff	410	516	489	485	428
Carlisle	381	379	404	360	375
Clapham	516	339	317	308	300
Croydon	330	304	291	297	295
Derby	429	400	388	420	358
Doncaster	346	334	454	388	388
Eastleigh	421	378	354	338	290
Hitchin	425	393	382	356	345
Ipswich ⁽³⁾	594	483	478	441	459
Leeds	504	464	444	417	324
Lincoln	275	251	27	-	-
Liverpool ⁽⁴⁾	379	345	320	342	337
London Bridge	316	307	287	278	286
London Euston ⁽⁵⁾	387	360	372	325	321
Manchester	598	563	536	442	447
Newcastle	480	445	426	391	391
Orpington	312	279	268	262	272
Plymouth	389	335	317	311	310
Preston	469	436	370	302	275
Reading	360	334	317	316	323
Romford	555	506	482	468	473
Saltley	417	383	384	319	328
Sandwell and Dudley	429	402	370	321	307
Sheffield	381	274	364	329	320
Shrewsbury	296	225	243	278	272
Stafford	245	375	380	329	325
Swindon	326	293	274	260	250
Tottenham	553	497	472	449	448
Warrington ⁽⁶⁾	613	560	518	350	345
Woking	394	361	359	373	367
York	346	311	315	295	372
Total MDU	15,025	13,834	13,279	12,265	12,027
Route HQ	96	101	246	1,501	1,775
Other HQ	1,154	1,124	831	370	506
Total maintenance	16,275	15,059	14,356	14,136	14,308

Statement 8b (2): England & Wales Analysis of maintenance headcount by MDU continued

Notes:

- (1) The above data includes only full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The operations of the Ipswich depot were reported as Colchester depot until the 2011/12 Regulatory financial statements.
- (4) The operations of the Liverpool depot were reported as Chester depot until the 2012/13 Regulatory financial statements.
- (5) The operations of the London Euston depot were reported as Stonebridge Park depot until the 2011/12 Regulatory financial statements.
- (6) The operations of the Warrington depot were reported as Crewe depot until the 2012/13 Regulatory financial statements.

Comments:

- (1) The Lincoln depot closed during 2011/12 and so the average headcount reported for that year is significantly lower than in previous years. No headcount is reported for 2012/13 or 2013/14.
- (2) Average headcount has increased by around 1.2 per cent compared to the previous year. A large part of this is due to increased delivery of capital works by local maintenance teams which was almost twice as high as the previous year. Whilst not all of these costs will be internal Network Rail costs it illustrates the additional outputs being delivered by the core maintenance teams. Local works delivery teams allow for a more agile delivery of capital works, especially when the works are in response to changing conditions that allow for the provision of maintenance and capital activities at the same time. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.
- (3) Depot headcount decreased by nearly 2 per cent mostly as a result of efficiencies and re-organisations, with more of the staff delivering capital projects moving under the management of Route HQ and Other HQ. Notable movements compared with the previous year include:
 - a. Cardiff – decrease largely due to capital works delivery team being transferred from the depot to be under the stewardship of the Route HQ.
 - b. Derby – decrease mostly from reclassification of staff from depot to Route HQ. These staff are associated with the delivery of capital works.
 - c. Eastleigh – decrease largely due to capital works delivery team being transferred from the depot to be under the stewardship of the Route HQ.
 - d. Leeds - this decrease was mostly due to the reclassification of some of the activities of the Knottingley section to York depot.
 - e. Preston – decrease mostly due to the movement of some activities to the Carlisle depot. The Carlisle depot witnessed an increase in average head count but there was some overall saving as a result of rationalisation of posts arising upon integration.
 - f. York – this increase was mostly due to the reclassification of some of the activities of the Knottingley section from Leeds depot.
- (4) Increases in Route HQ and Other HQ staff numbers reflect some of the decrease in depot-based headcount and also some additional resources introduced to the company to assist with the delivery of the capital works programme.

Statement 9a: England & Wales Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
Track	927	654	(273)	3,677	3,721	44
Structures	710	276	(434)	2,070	1,615	(455)
Signalling	597	483	(114)	2,463	2,421	(42)
Telecoms	176	83	(93)	994	965	(29)
Electrification	169	96	(73)	551	675	124
Plant and machinery	82	54	(28)	505	442	(63)
Operational property	314	176	(138)	1,183	1,183	-
Other renewals						
Information management	91	75	(16)	429	421	(8)
Corporate offices	37	16	(21)	238	92	(146)
Discretionary investment	25	2	(23)	115	96	(19)
West Coast Rollover	32	-	(32)	170	116	(54)
ORBIS	48	-	(48)	84	-	(84)
Other	156	33	(123)	305	128	(177)
Total	389	126	(263)	1,341	853	(488)
Total renewals expenditure	3,364	1,948	(1,416)	12,784	11,875	(909)

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £846m overspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.

Statement 9a: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (3) Track – expenditure in the year was noticeably higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. In addition, Network Rail has not been able to achieve the unit cost reduction for both Plain Line and Switches & Crossings that the PR08 assumed. Expenditure was more than 25 per cent higher than the previous year. This was mostly the result of higher non-volume expenditure including additional expenditure on fencing, drainage, national gauging programme and contractor settlement costs. Plain Line expenditure increased by over 15 per cent compared to prior year, due to an increase in volumes delivered (10 per cent) and higher unit costs. These higher unit costs arose largely from changes in contractual arrangements with suppliers which exposed Network Rail to a greater proportion of contractor costs (as actual volumes delivered were lower than planned) and a move towards more cost reflective pricing within the organisation (as part of NDS recovering their costs – refer to Statement 7b). Switches & Crossings expenditure increased by over 15 per cent compared to prior year, as a result of additional volumes completed (20 per cent) and higher refurbishment costs partly offset by unit cost savings (4 per cent). Total track expenditure in the control period was lower than the determination anticipated. This was mostly due to Network Rail delivering lower plain line volumes than the determination assumed but at a higher unit cost. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Since the publication of the Delivery Plan update 2010 some Plain Line activity has been deferred until future control periods, resulting in lower volumes (and so a reduction in costs) compared to the Regulator's assumption for control period 4. Unit costs in the control period were higher than the Regulator assumed. This was partly a result of the change in asset policy noted above. Concentrating renewals efforts on intensely used sections of the network increases the complexity and costs of replacement works compared to renewals delivered on less busy parts of the network. In addition, nearly £40m was spent on the National Gauging programme, this activity was not funded in the PR08 determination.
- (4) Structures – expenditure in the year and the control period was higher than the PR08. This was due to a number of factors, notably expenditure on works accelerated from control period 5 (£174m in the year, £250m in the control period). The funding for this programme was announced in the Government's Autumn Statement 2011 and was in addition to the allowances set out in the PR08. The extreme weather in 2012/13 also contributed to the level of renewals activity required in the current year as remediation works were undertaken at various sites across the network (as excessive levels of rainfall can have detrimental effects on the structures and embankments of the network). Extreme weather in the current year also contributed to the higher costs. This also resulted in Network Rail delivering other projects that were not funded in the regulatory settlement, such as the heavily-publicised activity at Dawlish where coastal defences had to be reconstructed in the wake of the heavy weather. Structures assets are long-life (on average 125 years old) complex and heterogeneous. This longevity, their generally good performance and perception of robustness has historically resulted in a level of renewals investment (including minor works) that Network Rail now considers to be insufficient to maintain their condition sustainably and deliver an acceptable long-term risk outcome. As Network Rail's understanding of the structures portfolio has improved over the control period it became clear that additional capital works were necessary and consequently there was an increase in activity in control period 4 which is expected to continue into the next control period.

Statement 9a: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (5) Signalling – expenditure was higher than the PR08 for both the current year and for the control period. The variance in 2013/14 was due to a different assumption about the profile of work in the PR08 compared to Network Rail's own plan. Expenditure for the control period as a whole is two per cent higher than the Regulator's determination. However, this does not represent the underlying position of signalling financial outperformance that has been achieved in the control period. Spend in the control period includes nearly £150m of works originally planned for control period 5. This mostly relates to works on the Western route as Network Rail combines activities with other projects (notably the Crossrail enhancement programme) in order to deliver the most efficient upgrade of the network from both a cost and customer disruption perspective. Expenditure in the current year was largely in line with the previous year (four per cent higher) as increased expenditure on projects accelerated from future control periods was offset by the earlier completion of projects in 2012/13.
- (6) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was marginally (three per cent) higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was in line with the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.
- (7) Electrification – expenditure in the current year is over 75 per cent higher than the PR08 but 18 per cent lower across the entire control period. This is largely due to the profile assumed in the PR08 which anticipated more activity at the start of the control period compared to later years. The reduced expenditure in the control period as a whole was a combination of deferral of activity into later control periods (such as the SCADA projects) and financial outperformance as Network Rail was able to deliver the outputs required for control period 4 at a lower cost than the Regulator anticipated. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (8) Plant & machinery – expenditure for the year and the control period was significantly higher than the PR08. During the control period Network Rail invested nearly £100m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is £32m lower than 2012/13 largely due to higher fleet purchases (£40m) in the previous year.

Statement 9a: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (9) Operational property – expenditure in the year was significantly higher than the determination. This was mostly due to additional outputs delivered at Birmingham New Street compared to the funding in the determination. The Regulator has given their consent for these extra works to be added to the RAB as efficient overspend (refer to Statement 2b). Expenditure for the year was more than double that in 2012/13 comparative which was also mostly driven by additional activity over and above the PR08 funding. As the table shows, expenditure for the control period was lower than the PR08. This saving reflects efficiencies (refer to Statement 5), deferrals of certain projects to the next control period and a switch of some planned activity in the Regulator's determination to Enhancements (relating to King's Cross). These savings are partly offset by additional works delivered at Birmingham New Street (as noted above) which are not included in the PR08 allowance in the above table.
- (10) Other – the major differences in this category are set out below:
- IM – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 12 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is only marginally (two per cent) higher than the PR08 as Network Rail operated within the funding parameters of the determination.
 - Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood and constructing the York workforce development centre.
 - Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would be complete in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Expenditure in the control period was £19m more than the determination assumed. Network Rail invested in projects to improve the infrastructure with the majority of the benefits crystallising in control period 5 and beyond.
 - West Coast CP3 rollover – this category of renewals relates to expenditure deferred from control period 3 to control period 4 on the West Coast project. The Regulator set out the expected costs of these schemes, not all of which was eligible for addition to the RAB. The Cumulative PR08 value in the above table represents the amount eligible for RAB addition. Network Rail actually spend less than the Regulator expected on West Coast control period 3 rollover. The Regulator assumed that the expenditure would be incurred at the start of the control period compared to the profile of delivery assumed by Network Rail which has contributed to the adverse variance in the current year.
 - ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.

Statement 9a: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- f. Other – expenditure in the control period is higher than the PR08 as it includes over £180m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These will bring many disparate operational centres onto consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority is expected to occur over the next ten years. The Other category also includes approximately £70m invested by Network Rail to improve train performance in 2013/14 and beyond which is not eligible for addition to the RAB (see Statement 2b) and reduces financial outperformance (refer to Statement 5). Expenditure in the current year was almost 35 per cent higher than in 2012/13 largely as a result of this investment in train performance.

Statement 9b: England & Wales Detailed analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
Track						
Plain line						
Conventional	388			1,663		
High output	176			748		
Reactive	5			56		
Refurbishment	25			72		
Switches and crossings						
S&C delivered	196			819		
Refurbishment	6			19		
Drainage	33			78		
Fencing	10			48		
Other off-track	65			136		
National gauging	23			37		
Engineering improvement schemes	-			1		
Total	927	654	(273)	3,677	3,721	44
Structures						
Underbridges	109	108	(1)	473	604	131
Overbridges	12	46	34	63	256	193
Bridgeguard 3	5	-	(5)	21	-	(21)
Earthworks	142	68	(74)	436	383	(53)
Major structures	21	-	(21)	103	66	(37)
Tunnels	25	25	-	73	146	73
Culverts	6	5	(1)	24	28	4
Footbridges	5	3	(2)	25	17	(8)
Coast/estuary defences	8	4	(4)	19	25	6
Retaining walls	4	6	2	24	29	5
Other	373	11	(362)	809	61	(748)
Total	710	276	(434)	2,070	1,615	(455)
Signalling						
Conventional resignalling	251	194	(57)	1,371	1,187	(184)
ERTMS resignalling	20	126	106	89	336	247
Level crossings	29	40	11	135	236	101
Minor works/ life extensions	87	92	5	440	488	48
Control centres	2		(2)	22		(22)
Modular signalling	19		(19)	95		(95)
Other	189	31	(158)	311	174	(137)
Total	597	483	(114)	2,463	2,421	(42)
Telecoms						
FTN/GSM-R						
Infrastructure	62			640		
Cab mobile	17			93		
Freight-only branch line	4			8		
Station information and surveillance						
CIS	4			26		
Public address	2			28		
Other	6			30		
Other operational						
Concentrators	1			25		
Driver-only operation CCTV	-			16		
Cable and cable routes	3			16		
Other	77			112		
Total	176	83	(93)	994	965	(29)

Statement 9b: England & Wales Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Electrification						
Overhead line						
GE project	26			130		
Rewires	5			12		
Campaign changes	2			24		
Structures	7			20		
Other	8			17		
Conductor rail	5			11		
AC distribution	18	20	2	55	130	75
DC distribution						
HV switchgear	12			37		
HV cables	8			45		
Transformer rectifiers	3			36		
LV switchgear	11			21		
LV cables (DC)	3			5		
Other	3			11		
SCADA	5	7	2	17	53	36
Other	53			110		
Total	169	96	(73)	551	675	124
Plant and machinery						
Fixed Plant						
Point heaters	5	10	5	17	42	25
Signalling power distribution	7	8	1	12	33	21
Signalling supply points	6	10	4	22	43	21
Other fixed plant	24	12	(12)	88	60	(28)
High output plant	13	2	(11)	67	142	75
Intelligent infrastructure	1	2	1	25	34	9
Fleet and machinery (NDS)	12	2	(10)	53	36	(17)
Rail fleet	-	-	-	3	5	2
Mobile plant and other	14	8	(6)	218	47	(171)
Total	82	54	(28)	505	442	(63)
Operational property						
Managed stations	124	28	(96)	272	251	(21)
Franchised stations	135	106	(29)	668	711	43
Light maintenance depots	15	12	(3)	67	67	-
Depot plant	2		(2)	12		(12)
Lineside buildings	14		(14)	80		(80)
MDU buildings	21	11	(10)	74	62	(12)
NDS depots	3	19	16	10	92	82
Total	314	176	(138)	1,183	1,183	-
Other renewals						
IT	91	75	(16)	429	421	(8)
Corporate offices	37	16	(21)	238	92	(146)
WCML engineering access	25	2	(23)	115	96	(19)
WC rollover from CP3	32	-	(32)	170	116	(54)
ORBIS	48	-	(48)	84	-	(84)
Other renewals	156	33	(123)	305	128	(177)
Total	389	126	(263)	1,341	853	(488)
Total renewals expenditure	3,364	1,948	(1,416)	12,784	11,875	(909)

Statement 9b: England & Wales Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference may not cast.

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £846m overspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.
- (3) Track – expenditure in the year was noticeably higher than the determination due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. In addition, Network Rail has not been able to achieve the unit cost reduction for both Plain Line and Switches & Crossings that the PR08 assumed. Expenditure was more than 25 per cent higher than the previous year. This was mostly the result of higher non-volume expenditure including additional expenditure on fencing, drainage, national gauging programme and contractor settlement costs. Plain Line expenditure increased by over 15 per cent compared to prior year, due to an increase in volumes delivered (10 per cent) and higher unit costs. These higher unit costs arose largely from changes in contractual arrangements with suppliers which exposed Network Rail to a greater proportion of contractor costs (as actual volumes delivered were lower than planned) and a move towards more cost reflective pricing within the organisation (as part of NDS recovering their costs – refer to Statement 7b). Switches & Crossings expenditure increased by over 15 per cent compared to prior year, as a result of additional volumes completed (20 per cent) and higher refurbishment costs partly offset by unit cost savings (4 per cent). Total track expenditure in the control period was lower than the determination anticipated. This was mostly due to Network Rail delivering lower plain line volumes than the determination assumed but at a higher unit cost. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Since the publication of the Delivery Plan update 2010 some Plain Line activity has been deferred until future control periods, resulting in lower volumes (and so a reduction in costs) compared to the Regulator's assumption for control period 4. Unit costs in the control period were higher than the Regulator assumed. This was partly a result of the change in asset policy noted above. Concentrating renewals efforts on intensely used sections of the network increases the complexity and costs of replacement works compared to renewals delivered on less busy parts of the network. In addition, nearly £40m was spent on the National Gauging programme, this activity was not funded in the PR08 determination.

Statement 9b: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (4) Structures – expenditure in the year and the control period was higher than the PR08. This was due to a number of factors, notably expenditure on works accelerated from control period 5 (£174m in the year, £250m in the control period). The funding for this programme was announced in the Government's Autumn Statement 2011 and was in addition to the allowances set out in the PR08. The extreme weather in 2012/13 also contributed to the level of renewals activity required in the current year as remediation works were undertaken at various sites across the network (as excessive levels of rainfall can have detrimental effects on the structures and embankments of the network). Extreme weather in the current year also contributed to the higher costs. This also resulted in Network Rail delivering other projects that were not funded in the regulatory settlement, such as the heavily-publicised activity at Dawlish where coastal defences had to be reconstructed in the wake of the heavy weather. Structures assets are long-life (on average 125 years old) complex and heterogeneous. This longevity, their generally good performance and perception of robustness has historically resulted in a level of renewals investment (including minor works) that Network Rail now considers to be insufficient to maintain their condition sustainably and deliver an acceptable long-term risk outcome. As Network Rail's understanding of the structures portfolio has improved over the control period it became clear that additional capital works were necessary and consequently there was an increase in activity in control period 4 which is expected to continue into the next control period.
- (5) Signalling – expenditure was higher than the PR08 for both the current year and for the control period. The variance in 2013/14 was due to a different assumption about the profile of work in the PR08 compared to Network Rail's own plan. Expenditure for the control period as a whole is two per cent higher than the Regulator's determination. However, this does not represent the underlying position of signalling financial outperformance that has been achieved in the control period. Spend in the control period includes nearly £150m of works originally planned for control period 5. This mostly relates to works on the Western route as Network Rail combines activities with other projects (notably the Crossrail enhancement programme) in order to deliver the most efficient upgrade of the network from both a cost and customer disruption perspective. Expenditure in the current year was largely in line with the previous year (four per cent higher) as increased expenditure on projects accelerated from future control periods was offset by the earlier completion of projects in 2012/13.
- (6) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was marginally (three per cent) higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was in line with the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.

Statement 9b: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (7) Electrification – expenditure in the current year is over 75 per cent higher than the PR08 but 18 per cent lower across the entire control period. This is largely due to the profile assumed in the PR08 which anticipated more activity at the start of the control period compared to later years. The reduced expenditure in the control period as a whole was a combination of deferral of activity into later control periods (such as the SCADA projects) and financial outperformance as Network Rail was able to deliver the outputs required for control period 4 at a lower cost than the Regulator anticipated. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (8) Plant & machinery – expenditure for the year and the control period was significantly higher than the PR08. During the control period Network Rail invested nearly £100m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is £32m lower than 2012/13 largely due to higher fleet purchases (£40m) in the previous year.
- (9) Operational property – expenditure in the year was significantly higher than the determination. This was mostly due to additional outputs delivered at Birmingham New Street compared to the funding in the determination. The Regulator has given their consent for these extra works to be added to the RAB as efficient overspend (refer to Statement 2b). Expenditure for the year was more than double that in 2012/13 comparative which was also mostly driven by additional activity over and above the PR08 funding. As the table shows, expenditure for the control period was lower than the PR08. This saving reflects efficiencies (refer to Statement 5), deferrals of certain projects to the next control period and a switch of some planned activity in the Regulator's determination to Enhancements (relating to King's Cross). These savings are partly offset by additional works delivered at Birmingham New Street (as noted above) which are not included in the PR08 allowance in the above table.
- (10) Other – the major differences in this category are set out below:
- a. IM – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 12 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is only marginally (two per cent) higher than the PR08 as Network Rail operated within the funding parameters of the determination.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood and constructing the York workforce development centre.

Statement 9b: England & Wales Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- c. Discretionary investment – the PR08 is largely comprised of West Coast engineering access allowances. The PR08 assumed that expenditure on this scheme would be complete in the first year of the control period whereas the Delivery Plan assumed a more even expenditure profile. Expenditure in the control period was £19m more than the determination assumed. Network Rail invested in projects to improve the infrastructure with the majority of the benefits crystallising in control period 5 and beyond.
- d. West Coast CP3 rollover – this category of renewals relates to expenditure deferred from control period 3 to control period 4 on the West Coast project. The Regulator set out the expected costs of these schemes, not all of which was eligible for addition to the RAB. The Cumulative PR08 value in the above table represents the amount eligible for RAB addition. Network Rail actually spend less than the Regulator expected on West Coast control period 3 rollover. The Regulator assumed that the expenditure would be incurred at the start of the control period compared to the profile of delivery assumed by Network Rail which has contributed to the adverse variance in the current year.
- e. ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.
- f. Other – expenditure in the control period is higher than the PR08 as it includes over £180m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods. Many of these projects are for the construction of Rail Operating Centres (ROCs) which are a vital part of Network Rail's Operating Strategy. These will bring many disparate operational centres onto consolidated sites to allow a more responsive, flexible approach whilst also reducing future operating costs. The transition to ROC sites will take some time but the majority is expected to occur over the next ten years. The Other category also includes approximately £70m invested by Network Rail to improve train performance in 2013/14 and beyond which is not eligible for addition to the RAB (see Statement 2b) and reduces financial outperformance (refer to Statement 5). Expenditure in the current year was almost 35 per cent higher than in 2012/13 largely as a result of this investment in train performance.

Statement 10: England & Wales Other Information

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element						
Schedule 4						
Income	-					
Cost	(159)					
Net cost	(159)	(137)	(22)			
Schedule 8						
Net amount payable under NR regime	(193)					
Net amount payable under TOC regime	(3)					
Net cost	(196)	-	(196)			
B) Net Impact of Schedule 4 & 8						
Schedule 4						
Access Charge Supplement Income	136	137	(1)	837	839	(2)
Cost	(159)	(137)	(22)	(667)	(839)	172
Net income	(23)	-	(23)	170	-	170
Schedule 8						
Access Charge Supplement Income	-	-	-	6	-	6
Cost	(196)	-	(196)	(469)	-	(469)
Net cost	(196)	-	(196)	(463)	-	(463)
C) Opex memorandum account						
Opening balance						
Volume incentive	58					
Proposed amounts to be included in the CP5 expenditure allowance	40					
Total logged up items – opening balance	98					
In year						
Volume incentive	(10)					
Proposed amounts to be included in the CP5 expenditure allowance	67					
Total logged up items – in year movements	57					
Closing balance						
Volume incentive	48					
Proposed amounts to be included in the CP5 expenditure allowance	107					
Total logged up items – closing balance	155					

Statement 10: England & Wales Other Information continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost 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 revenue. 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 a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. In addition, the PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. In their determination for control period 5, the ORR has indicated that Network Rail will be funded for this shortfall in control period 5 and so this is also included in the Opex memorandum account. In addition, the PR08 stated that Network Rail would be compensated for any shortfall in income relating to delays from the developments at Euston and Victoria and so this too is included in the Opex memorandum account.
- (7) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Amounts earned under the volume incentive are included in the Opex memorandum. The amount recognised in the current year is negative as although train mileage increased slightly compared to the previous year the Regulator's hurdle rate gets progressively more challenging with each year of the control period.
- (8) Amounts in the Opex memorandum at the end of the control period are returned to Network Rail through additional income payments in control period 5, as set out in the Regulator's PR13 determination.

Statement 10: England & Wales Other Information continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) Schedule 4 – compensation payments for possessions in the year were higher than the PR08 anticipated. This was largely due to differences in the profile of capital works delivery assumed in the determination compared to Network Rail's actual delivery of these projects (refer to Statement 9a). The comparatively higher level of capital expenditure in this year necessitated a higher number of possessions that the Regulator expected and so higher Schedule 4 compensation costs. The increase in capital delivery compared to the previous year also helped increase Schedule 4 costs compared to 2012/13 by approximately one-third. For the control period as a whole, Schedule 4 costs were 20 per cent lower than the regulatory allowance. This was largely due to better organisation of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 allowances in the determination can be allocated accurately between different activities (mostly for different renewals categories (track, electrification, signalling, electrification and structures) but also for maintenance and emergency timetables). There is minimal net impact on Schedule 4 costs arising from the re-profiling of activity between control period 4 and control period 5, with accelerated delivery of structures and signalling works being offset by deferrals of plain line track and electrification.

Statement 10: England & Wales Other Information continued

In £m 2013/14 prices unless stated otherwise

- (2) Schedule 8 – net costs are 40 per cent higher than the previous year. This was largely due to deteriorating train performance as Great Britain passenger services punctuality declined from 90.9 per cent to 90.0 per cent and delay minutes increased 8 per cent. In addition, because the performance regime benchmark gets progressively more challenging with each passing year of the control period performance has to improve each year to avoid financial penalties. Whilst Schedule 8 costs are not exactly matched to overall train performance or delay minutes (for example, different operators have different costs per delay minutes) there is a strong correlation between overall train performance and Schedule 8 costs. There was a net cost of £196m for the year compared to the PR08 determination which assumed that that Schedule 8 costs would be neutral (i.e. no net income or costs). The PR08 assumed that overall Network Rail would achieve the performance targets in the control period and so that no net payment would be made. However, during the control period Great Britain delay minutes have been over 20 per cent higher than the Regulator assumed and train punctuality rates are significantly lower than the ORR's targets. A number of factors have contributed to Network Rail missing train performance targets in the control period, including extraneous factors such as extreme weather and cable theft, as well as asset failures and increased traffic on the network. The control period witnessed some severe weather events which hampered performance. This included excessive precipitation in 2013/14 which played a role in the increased delay minutes in the current year compared to the prior year. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Train performance in 2012/13 was also affected by rainfall, with 2012 being the third wettest year on record for Great Britain. Prior to these weather events in the final two years of the control period, Great Britain train punctuality peaked at 91.6 per cent (which was still lower than the ORR assumption for that year). Train performance in the control period has also been influenced by higher levels of cable theft, network trespass and fatalities than planned. Cable theft has contributed over 0.8 million passenger train delay minutes in the control period across Great Britain resulting in costs of around £40m. The insipid impact of cable theft was more pronounced in the earlier years of the control period. Recognising the adverse impact on performance, Network Rail undertook a number of initiatives to address this issue, such as lobbying government for changes in the law (resulting the Scrap Metal Dealers Act 2013), creating a specialist task force in conjunction with British Transport Police and the introduction of new cables which are easier to identify and harder to steal. Consequently, delay minutes attributable to cable theft declined in the final two years of the control period. Increased traffic on the network also contributed to the adverse Schedule 8 costs in the period. The delay per incident metric (which monitors the amount of disruption caused by individual incidents) has shown increases during the control period as the network is more intensively used. The higher Schedule 8 costs are also partly driven by changes in Network Rail's insurance arrangements. At the time of the determination, Network Rail paid higher insurance premiums in order to secure a lower excess that had to be borne by Network Rail for each individual claim. Network Rail re-structured its insurance arrangements meaning that it paid lower annual premiums but was exposed to higher excess rates. Therefore, the savings made in insurance costs compared to the Regulator's determination in the control period (refer to Statement 7a) have been partly offset by higher Schedule 8 costs. The additional Schedule 8 costs incurred during the control period are partly offset by additional income that Network Rail has earned through the volume incentive (refer to Statement 13) and capacity charges (refer to Statement 6a, although the PR08 allowances for capacity charges are mis-stated as noted above). In addition, there have also been a number of asset failures which have contributed to the adverse delay minutes. As well as the costs Network Rail have incurred through the Schedule 8 compensation mechanism of £463m for the control period, these delays have also resulted in the ORR levying a financial penalty, of which £48m for missed regulatory outputs and Network Rail committing to invest a further £21m to improve train performance and the passenger experience (refer to Statement 7a), making the total cost of missing train performance targets £532m adverse to the determination.

Statement 11: England & Wales Analysis of Network Rail's charges to Network Rail (High Speed) Limited for work on HS1

In £m 2013/14 prices unless stated otherwise

2013/14

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	21	-	-	-	-	8	29
Renewals	-	-	-	-	-	-	-
Total	21	-	-	-	-	8	29

Cumulative

Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	98	-	1	-	2	43	144
Renewals	-	-	-	-	-	-	-
Total	98	-	1	-	2	43	144

Notes:

- (1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2013/14 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2013/14				
Efficiency (£m)	(93)	72	13	(8)
Efficiency (%)	(10.4)%	7.6%	(2.0%)	(1.8%)
NR trajectory (£m)	80	55	143	278
NR trajectory (%)	9.3%	5.4%	5.3%	6.1%
PR08 (£m)	30	50	120	200
PR08 (%)	4.0%	4.5%	5.5%	5.0%
Cumulative				
Efficiency (£m)	(10)	359	327	676
Efficiency (%)	(1.0)%	29.4%	12.6%	14.1%
NR trajectory (£m)	155	331	773	1,259
NR trajectory (%)	16.5%	25.8%	25.3%	23.8%
PR08 (£m)	140	227	619	986
PR08 (%)	16.4%	18.0%	23.8%	20.9%

Comments:

- (1) The Controllable Opex position for the current year in the above table includes a provision for the long distance train performance financial penalty levied by the ORR and additional re-organisation costs.
- (2) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).
- (3) The REEM indicates the level of efficiency made in comparison to the control period 3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in control period 4 compared to control period 3.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

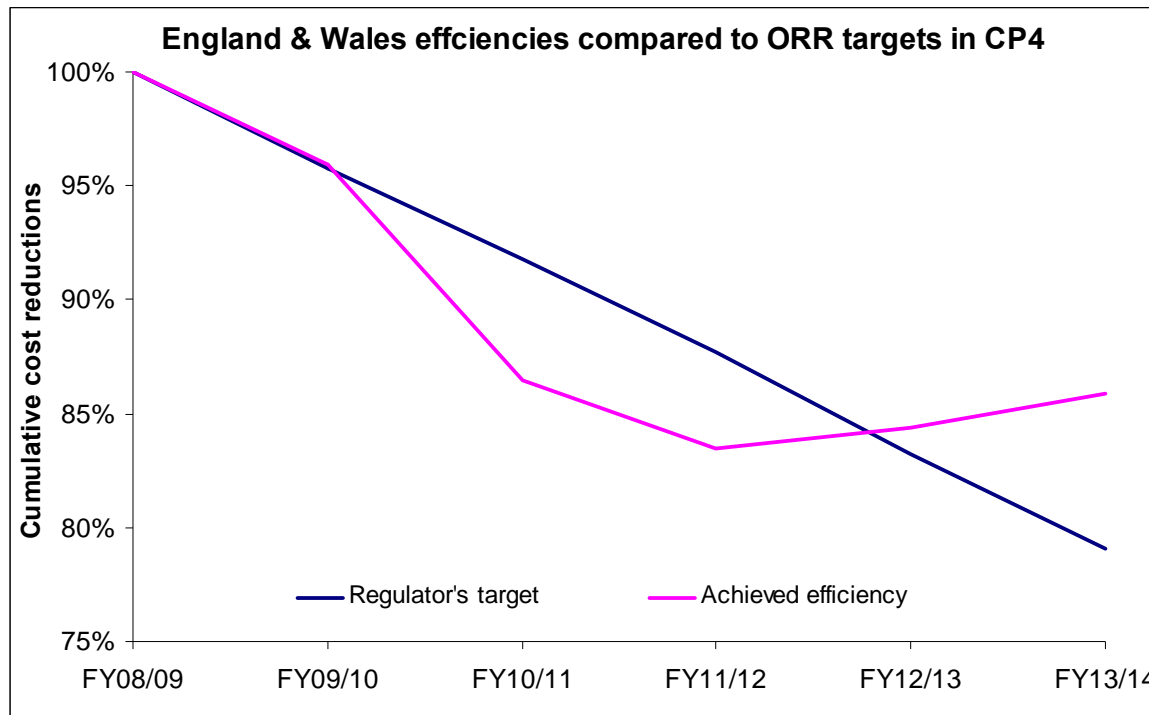
- (4) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of control period 4.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (control period 3 exit point) as set out in the below table:

Year	In year inflation	Cumulative inflation from 2008/09
2009/10	0.30%	0.30%
2010/11	4.71%	5.02%
2011/12	5.16%	10.44%
2012/13	2.98%	13.73%
2013/14	2.65%	16.74%

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (7) Whilst efficiencies in the final year of the control period are significantly ahead of the Regulator's expectation, this has not been the case throughout the entire control period. The below shows how the reported efficiencies have compared to the ORR's target:



- (8) Overall, efficiencies for the control period are 14.1 per cent. This is lower than the previous year, which reported efficiencies of 15.6 per cent. The result was also lower than the ORR efficiency target and Network Rail's own efficiency trajectory. The decrease in efficiencies in 2013/14 compared to the previous year is caused by additional Opex costs arising from one-offs (the ORR financial penalty for missed long distance train performance targets and restructuring costs) and higher renewals costs (including one-off items such as the Performance Recovery Fund) partly offset by Maintenance savings (building on efficiencies made earlier in the control period).

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (9) Controllable opex – controllable opex efficiencies in the control period were slightly negative. This implies that Network Rail has not reduced its Opex costs in the current control compared with the 2008/09 baseline. The 2013/14 REEM was adversely impacted by some notable one-off costs which distort the underlying picture of efficiency savings. The current year includes a financial penalty imposed by the ORR for missed train performance on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1 per cent that it missed the regulatory punctuality target of 92 per cent for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £48m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, the current year includes amounts for commercial claims regarding properties and provisions for restructuring as the company is re-organised into an appropriate configuration to help deliver the cost savings required by the industry. Without these notable one-off items the Opex efficiency for the control period would be 11.5 per cent which, whilst still below the Regulator's assumption and Network Rail's own trajectory, does reflect the underlying savings that have been made during the control period. As set out in the Delivery Plan 2009, Network Rail did not plan to deliver the Regulator's target efficiencies of 16.4 per cent for the control period (with Maintenance delivering the compensating savings). Staff costs (notably signaller staff costs) are a large component of Opex costs. Consequently, the main way Network Rail can reduce costs would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions to signalling sites around the country without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base going forwards. However, initiating such wide ranging plans takes time. Also, additional expenditure on safety initiatives has introduced extra expense into the day-to-day costs of the company.
- (10) Maintenance – efficiencies for the control period were greater than the targets in the Regulator's determination and in Network Rail's own trajectory, continuing the trend witnessed across the control period. Cost reductions have been largely achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (11) Renewals – despite improvements in underlying renewals efficiencies some significant one-off programmes resulted in declining efficiencies compared to the previous year. This most notable of these was a specific Performance Recovery Fund which invested £70m to improve train performance in 2013/14 and beyond which was over and above the overall renewals funding included in the PR08. Without this, renewals efficiencies in the current year would have been 17.7 per cent (and overall REEM would have been around 1.5 per cent higher). Renewals efficiencies by category are discussed in more detail below:
- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 (and endorsed by the Regulator) renewals activity would prioritise works on the more critical route sections of the network based on condition rather than just replacing track based on age, thus extending the life of quieter parts of the network. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, ceteris paribus, unit costs would increase compared to the 2008/09 base line rate. For plain line activity the volume driven savings were partly offset by higher than expected track unit costs. In order to create a more collaborative approach with its suppliers Network Rail has introduced framework contracts to protect suppliers against annual fluctuations in Network Rail's demand resulting in higher fixed costs inherent in the contracts. Thus, decreases in volumes do not result in linear decreases in unit costs and as volumes delivered in the year were lower than planned, Network Rail was exposed to a higher proportion of contractors' costs. Non-volume efficiencies were lower than the Regulator planned due to additional costs associated with the National Gauging project (which was not included in the PR08 baseline), additional fencing and drainage works and compensation payments made to contractors as Network Rail negotiates new terms for the forthcoming control period.
 - b. Signalling – during control period 4, signalling efficiencies have been over 14 per cent, well below the regulatory target, and less than the efficiency reported in the last two years. Cost savings have been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies were adversely impacted by increases in non-volume costs as expected costs for minor projects for the control period as a whole have increased compared to the Regulator's determination.
 - c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs.
 - d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also, completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs), organising extended possessions (to enable more work to be completed at one time) and early engagement with delivery partners have also enabled cost reductions in this control period.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- e. Telecoms (non-FTN) – savings in the control period have arisen from savings across a number of small projects delivered during the control period. Common drivers of efficiency across a number of projects include: better contract negotiation to secure lower prices and better delivery solutions, replacing components/ maintaining assets such as Large concentrators on a timely basis (with no adverse impact on whole-life costs) and better understanding of asset condition to determine optimal timing of replacement.
- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2013/14. This programme was always expected to spend more than the post-efficient funding available due to complications in delivering the solution compared to the original plan. Increases in the scope of the project resulted in additional costs. Also, extra asset testing, trespass and vandalism measures increased the costs of delivery compared to expectations.
- g. Plant & machinery - efficiencies were delivered across a number of small projects. Savings were made through combining contracts to extract best value from suppliers, utilising cheaper in-house resource to deliver projects and improved procurement processes through contractor and materials frameworks.
- h. IM - efficiencies were in line with the Regulator's targets for the control period as Network Rail delivered the required outputs within the funding levels specified by the Regulator.
- i. Corporate offices - the amount spent across the control period was higher than the pre-efficient determination. This additional expenditure was caused by extra buildings being constructed by Network Rail. These projects have solid business cases which will result in Network Rail saving money in the future (and so reducing the government subsidy required) but the original funding for these items was not included in the PR08 baselines.
- j. Other - this category included expenditure on the Performance Recovery Fund, the adverse impact of which has been discussed above

Statement 13: England & Wales Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	48	280.75 m	259.06 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£7,937 m	£5,771 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	23.76 m	24.51 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	27,295 m	25,623 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	48					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in control period 4 which assumed an increase in passenger demand each year. However, this demand growth could be higher than envisaged in the PR08. Therefore the regulatory settlement for control period 4 seeks to incentivise Network Rail to meet these unanticipated increases in demand largely through non-capex intensive solutions. The above table sets out the growth targets Network Rail has to achieve to trigger the volume incentives. Network Rail has been able to respond to the additional passenger demand by increasing the number of passenger train miles by over 8 per cent (or 21.70 million) compared to 2008/09 (the baseline year). This resulted in Network Rail earning £48m under the volume incentive mechanism. This outperformance has not been included in the overall financial assessment of how Network Rail has performed during the control period (refer to Statement 5). As set out in the Regulator's control period 5 PR13 determination the amounts earned under the volume incentive are included in the Opex memorandum account (refer to Statement 10) and are received by Network Rail during control period 5.

Statement 14: England & Wales Maintenance unit costs

In £m 2013/14 prices unless stated otherwise

A) Maintenance expenditure 2013/14

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	4,853	3,473	16,856	-	16,856
MNT006	Manual Wet Bed Removal	Bay	156	29,615	4,612	-	4,612
MNT010	Replacement of S&C Bearers	Each	446	6,648	2,967	-	2,967
MNT011	S&C Arc Weld Repair	Number	544	14,125	7,681	-	7,681
MNT013	Level 1 Patrolling Track Inspection	Mile	73	552,513	40,222	-	40,222
MNT015	Weld Repair of Defective Rail	Number	548	7,783	4,266	-	4,266
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,021	1,362	2,753	-	2,753
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	2,237,341	8,950	-	8,950
MNT026	Replenishment of Ballast Train	Tonne	22	167,322	3,700	-	3,700
MNT027	Maintenance of Rail Lubricators	Lubricator	126	104,198	13,082	-	13,082
MNT029	Replacement of Pads & Insulators	Sleeper	15	399,702	6,050	-	6,050
MNT030	Maintenance of Longitudinal Timber	Timber	98	10,764	1,053	-	1,053
MNT032	CWR – Stressing	Yard	10	489,662	4,929	-	4,929
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	270	3,648	985	-	985
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	263	30,265	7,949	-	7,949
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	61	60,748	3,700	-	3,700
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	126	85,803	10,792	-	10,792
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	82	21,659	1,772	-	1,772
MNT120	S&C - Renew crossing	Crossing	16,157	689	11,132	-	11,132
MNT123	S&C Renew Half Set of Switches	H/S Switch	12,831	626	8,032	-	8,032
MNT125	Track Inspection (Other)	Mile	44	287,974	12,777	-	12,777
MNT128	Lift & Replace Level Crossing for PWAY	Location	788	4,016	3,165	-	3,165
MNT150	Signalling Cables	Various	43	157,290	6,760	-	6,760
MNT155	Point End Routine Maintenance non Powered	Point End	59	60,385	3,537	-	3,537
MNT156	Point End Routine Maintenance Powered	Point End	77	439,402	34,018	-	34,018
MNT170	Vegetation Management (Manual)	Square Yard	3	4,041,315	12,426	-	12,426
MNT207	Maintain CRE Cables	Various	107	13,309	1,423	-	1,423
MNT210	Maintain Non-Traction Power Supplies	Each	83	4,051	335	-	335
MNT211	Maintain OHL Components	Various	50	394,684	19,561	-	19,561
MNT212	Maintain Points Heating	Each	41	147,338	6,099	-	6,099
Total					261,584	-	261,584
Expenditure outside unit cost framework						606,416	606,416
Total					261,584	606,416	868,000

Statement 14: England & Wales Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

B) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	7,160	3,229	23,119	-	23,119
MNT006	Manual Wet Bed Removal	Bay	182	29,749	5,425	-	5,425
MNT010	Replacement of S&C Bearers	Each	505	5,502	2,777	-	2,777
MNT011	S&C Arc Weld Repair	Number	603	8,494	5,125	-	5,125
MNT013	Level 1 Patrolling Track Inspection	Mile	77	584,203	44,798	-	44,798
MNT015	Weld Repair of Defective Rail	Number	456	8,699	3,965	-	3,965
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,076	1,356	2,815	-	2,815
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	2,807,998	11,529	-	11,529
MNT026	Replenishment of Ballast Train	Tonne	20	217,017	4,349	-	4,349
MNT027	Maintenance of Rail Lubricators	Lubricator	130	111,915	14,537	-	14,537
MNT029	Replacement of Pads & Insulators	Sleeper	16	440,523	7,201	-	7,201
MNT030	Maintenance of Longitudinal Timber	Timber	113	8,068	911	-	911
MNT032	CWR – Stressing	Yard	10	477,145	4,897	-	4,897
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	304	3,414	1,039	-	1,039
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	319	29,826	9,510	-	9,510
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	80	58,815	4,694	-	4,694
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	126	85,535	10,805	-	10,805
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	116	11,145	1,291	-	1,291
MNT120	S&C - Renew crossing	Crossing	17,789	550	9,785	-	9,785
MNT123	S&C Renew Half Set of Switches	H/S Switch	13,935	565	7,873	-	7,873
MNT125	Track Inspection (Other)	Mile	36	295,734	10,586	-	10,586
MNT128	Lift & Replace Level Crossing for PWAY	Location	924	3,266	3,017	-	3,017
MNT150	Signalling Cables	Various	39	141,692	5,501	-	5,501
MNT155	Point End Routine Maintenance non Powered	Point End	88	61,842	5,470	-	5,470
MNT156	Point End Routine Maintenance Powered	Point End	96	440,510	42,089	-	42,089
MNT170	Vegetation Management (Manual)	Square Yard	4	3,795,430	15,584	-	15,584
MNT207	Maintain CRE Cables	Various	119	10,114	1,204	-	1,204
MNT210	Maintain Non-Traction Power Supplies	Each	111	1,807	201	-	201
MNT211	Maintain OHL Components	Various	121	209,695	25,417	-	25,417
MNT212	Maintain Points Heating	Each	48	156,883	7,580	-	7,580
Total					293,094	-	293,094
Expenditure outside unit cost framework						640,906	640,906
Total					293,094	640,906	934,000

Statement 14: England & Wales Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) Network Rail has continued with improving the unit cost system architecture and processes as recommended by last year's review of unit costs undertaken by Arup. Improvements this year include:
 - a. Increasing granularity on labour costs included within the framework;
 - b. Reducing the timeframe of reporting actual data;
 - c. Improving the accessibility and visibility of the reported data and governance framework;
- (2) The proportion of costs disclosed through the MUC (Maintenance Unit Cost) framework in the above tables has remained in line with the previous year at around 30 per cent.

Statement 15: England & Wales Renewals unit costs and coverage

In £m 2013/14 prices unless stated otherwise

A) Renewals unit costs 2013/14

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	327	1,738	569		569
	S&C equivalent unit renewal	496	394	196		196
	Other non-volume costs				162	162
	Total			765	162	927
Civils	701 Overbridge	0.44	7,522	4		4
	702 Underbridge	2.32	33,109	76		76
	703 Overbridge - Bridgeguard 3	3.71	1,596	6		6
	704 Footbridge	2.73	549	2		2
	705 Tunnel	2.09	10,310	22		22
	706 Culvert	2.05	504	2		2
	707 Retaining Wall	0.69	356	0		0
	708 Earthworks	0.21	336,697	72		72
	Other non-volume costs				526	526
	Total			184	526	710
Signalling	101 - Re-signalling	195	958	187		187
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 – Interlocking renewal	n/a	n/a	n/a		n/a
	108 – Level crossing renewals – MCB Type	734	44	32		32
	108 – Level crossing renewals – MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				378	378
	Total			219	378	597
Telecoms	501 - Large concentrator	250	1	0		0
	502 – DOO CCTV	29	5	0		0
	503 – PETS/Level crossing	42	7	0		0
	504 – Small signal box concentrator	210	14	3		3
	506 – Customer Info system	7	395	3		3
	507 – Long line address system	4	3,861	15		15
	Other non-volume costs				155	155
	Total			21	155	176

Statement 15: England & Wales Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

B) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non-volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	314	1,579	496		496
	S&C equivalent unit renewal	515	328	169		169
	Other non-volume costs				67	67
	Total			665	67	732
Civils	701 Overbridge	1.76	4,278	8		8
	702 Underbridge	1.24	66,315	82		82
	703 Overbridge - Bridgeguard 3	1.07	824	1		1
	704 Footbridge	5.34	1,055	6		6
	705 Tunnel	0.70	6,738	5		5
	706 Culvert	4.01	452	2		2
	707 Retaining Wall	2.19	901	2		2
	708 Earthworks	0.14	278,809	37		37
	Other non-volume costs				262	262
	Total			143	262	405
Signalling	101 - Re-signalling	198	725	144		144
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	391	27	11		11
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				417	417
	Total			155	417	572
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	28	53	1		1
	503 - PETS/Level crossing	14	40	1		1
	504 - Small signal box concentrator	208	26	5		5
	506 - Customer Info system	31	123	4		4
	507 - Long line address system	3	3,299	11		11
	Other non-volume costs				152	152
	Total			22	152	174

Statement 15: England & Wales Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.
- (2) Signalling Re-signalling volumes presented in the above table are on an “earned” basis rather than a “commissioned” basis. Commissioning of signalling schemes refers to when the assets come into use but as costs can be incurred on signalling schemes over a number of years this would not give an appropriate indication of unit rates or the level of work completed. Instead, disclosing volumes on an earned basis allows a fairer reflection of the costs and activity in a particular year and allows for a more meaningful comparison.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has increased by 21 per cent compared to the previous year. However, there was a decrease in the proportion of total renewals expenditure captured through the unit costs above (largely as a result of increased expenditure in renewals categories not covered through unit costs, such as ORBIS, efficient overspend and performance recovery funds – refer to Statement 9a).
- (2) Track – Plain line – volumes delivered were 10 per cent higher than the previous year mainly due to a partial catch up of volumes deferred in 2012/13. Despite the increased delivery, the total number of units delivered in the control period was less than set out in the Delivery Plan update 2012. As noted in the previous year's Regulatory Financial Statements there were a number of factors which limited delivery of projects (such as adverse weather and ground conditions and industrial action by a key logistics partner). Therefore, Network Rail planned to catch up some of this shortfall in 2013/14 and also to maximise the use of emergent delivery techniques, such as high output delivered works on the East Coast and the West Coast. High output is able to replace plain line track in a more timely manner, thus reducing disruption on the railway for the passenger as well as minimising Schedule 4 costs (refer to Statement 10). However, this type of delivery solution is expensive and has contributed to increased unit costs in the current year compared to the previous year. Another key factor in the unit rate uplift was the contractual shift with some delivery partners towards cost plus pricing, which exposed Network Rail to a greater proportion of underlying contractor cost whilst internal cost reflective pricing saw material and plant-based distribution costs cross-charged at a more open-market cost where previously this had been partially absorbed by National Delivery Service (refer to Statement 7b).
- (3) Track – Switches & Crossings – volumes delivered in the year were 19 per cent higher than 2012/13. This increase was planned as Network Rail intended to deliver more Switches & Crossings units per year as the control period progressed (as set out in the Delivery Plan update 2012). Overall, Network Rail delivered marginally more Switches & Crossings units in the control period than the Delivery Plan update 2012 anticipated as some work was accelerated from control period 5. Unit costs were 4 per cent lower than the previous year partly driven by the increase in volumes delivered. There are a certain level track renewals costs which are fixed in the short term, such as design and management costs, meaning that increased volumes can reduce unit costs. Savings have also been realised through improved contracting strategy enacted by National Delivery Service relating to the purchase of Switches & Crossings units from their suppliers, which has resulted in a cost saving.

Statement 15: England & Wales Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (4) Civils – Overbridges – unit costs have decreased by around 75 per cent compared to the previous year which was largely due to the mix and scope of jobs. The level of Overbridge projects were lower the prior year (although the total units were higher) giving greater sensitivity to the projects completed and allowing the projects completed to benefit from economies of scale around design, planning and mobilisation. Projects such as Sunderland Station raft repairs, Smithy Lane steel work repairs and Beza street repair works all had lower unit costs than average for this category of Civils. The comparative year had some relatively expensive projects such as Mitigation works at Ewenny, concrete repairs at Solden and Laitys Road Strengthening works.
- (5) Civils – Underbridges – unit costs were nearly 90 per cent higher than the previous year, which reversed some of the 25 per cent cost reduction reported in that year compared to the 2011/12 rates. Some of the projects delivered in the current year had noticeably higher unit rates than the average for these items such as River Avon Bridge scour protection, Barnabus Road reconstruction, Ravensbourne Park and Griffiths Road (replacement of superstructure). The number of volumes delivered decreased by 50 per cent compared to the previous year. This was partly attributable to a shift towards developmental works in many routes to underpin the development of an amended workbank for control period 5
- (6) Civils – Bridgeguard 3 – unit costs were more than twice the costs in the previous year. As noted in last year's Regulatory Financial Statements, the unit costs reported in 2012/13 were distorted by the low level of volumes delivered (less than 10 per cent of the number of units delivered in 2011/12 or 2013/14). Volumes delivered in the year were significantly higher than the previous year as the work deferred in 2012/13 (which included some complex projects that required innovative design solutions and hence delays) was caught up in 2013/14.
- (7) Civils – Footbridges – unit costs decreased by nearly 50 per cent compared to the previous year. This was partly due to the decrease in volumes which introduced greater volatility in the unit costs comparison. As noted in last year's Regulatory Financial Statements the unit rates in 2012/13 were adversely impacted by projects with higher than average costs. This included projects at Cross Keys, Wheelers Lane, Hillyfields and Mayfield. Volumes delivered were approximately half of those delivered in the previous year. Several planned footbridges could not be completed this year due to varying delivery and possession-based issues, such as Clarke's bridge..
- (8) Civils – Tunnels – unit costs have increased by nearly 200 per cent compared to the previous year reflecting more expensive, complex works undertaken this year. There were a number of jobs which included a number of significant element of repair works with high unit rates including tunnels at Holme, Blea Moor and Clay Cross. Volumes delivered in the current year were 50 per cent more than the previous year as more complex schemes that have been in development for some time were completed.
- (9) Civils – culverts – unit costs were significantly lower than the previous year. This is mainly due to the mix of projects this year compared to the previous year. Projects completed in the previous year included work required to replace a partially collapsed asset at Starcross culvert. Volumes delivered in 2013/14 were about 10 per cent lower than the previous year.

Statement 15: England & Wales Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (10) Civils – retaining walls – the lower unit costs in the current year (less than half of those in the previous year) was mostly due to the type of project delivered in the current year compared to the previous year. As noted in the previous year's Regulatory Financial Statements, the mix of projects in 2012/13 resulted in higher than average unit rates. Last year, there were notably expensive unit rates in a project at Cornholme compared to those projects completed in 2013/14, such as North Dulwich Upside brink work repairs. The lower sample of projects in the current year also helped cause such a large unit cost reduction. Volumes were significantly lower than the previous year and lower than planned as work was deferred into control period 5.
- (11) Civils – earthworks – unit costs have increased by 50 per cent compared to the previous year. Last year's unit rate was around 20 per cent higher than the 2011/12 rate. As noted in the prior year's Regulatory Financial Statements this was mostly due to a number of projects that were re-profiled from 2012/13 into 2013/14 which had high unit rates associated with them. As a result of the adverse weather in the year and the impact on the railway network there were a number of emergency projects that had to be undertaken (such as Commondale Embankment, Ockley Up side Embankment, Quarry Line Emergency Repairs, Stone House emergency works). In such instances the requirement for immediate replacement resulted in higher unit costs as it is often impractical for projects to be planned in a manner to deliver in an optimal unit cost. Partly as a result of these emergency works (and partly due to the re-profiling of certain projects from 2012/13 to the current year) there was an increase of over 20 per cent in the number of volumes delivered.
- (12) Signalling – re-signalling - unit costs were in line with the previous year whilst volumes have increased by more than 30 per cent. This earned volume increase is mainly a result of the planned renewals profile for control period 4, which had many of the large/complex re-signalling schemes developed over the initial years of the control period and then commissioned in years four and, in particular, five. Substantive amount of spend in the year took place on schemes such as East Sussex resignalling, Nottingham Station re-control, Walsall-Cannock and Farnham area resignalling. Many of these schemes have built up to their commissioning date in the current year and have, therefore, incurred a significant proportion of their cost, which has increased the earned volume percentage in year.
- (13) Signalling - Level crossing renewals – MCB Type - the unit cost has increased due to the transition of many more complex schemes into production for intended completion prior to the end of the control period, which have therefore seen a substantial ramp up in spend, particularly those associated with major re-signalling schemes such as Ely-Norwich, Walsall-Cannock and Poole to Wool; the like of which historically deliver at a significantly higher unit rate than more standard - and sometimes like-for-like - renewals. There was also substantial activity relating to the automation of crossings to support the National Operating Strategy, which came in at a higher unit rate due to the complexity of the scope and sites involved. Increase in volumes reflected the increased level of physical commissionings in 2013/14 compared to the prior year. This increase was largely planned and relates to the required gestation period for many substantive re-signalling schemes commenced early in control period 4 and intended for completion in 2013/14 which included a number of level crossing renewals within the larger work packages. Other additional volume timed to supplement larger Network Rail strategic objectives, such as the National Operating Strategy.
- (14) Telecoms – Large concentrators - there was no activity reported in the previous year and so no unit cost to compare to. There was only one large concentrator delivered in the year which does not give a meaningful indication of the usual unit cost.

Statement 15: England & Wales Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (15)Telecoms – DOO CCTV – unit costs are consistent with the previous year, with a minor increase present. Volumes delivered in the year decreased significantly compared to the previous year and were lower than planned. This is mostly a result of a project in Anglia being deferred into control period 5 due to extended tendering process and stakeholder management in order to achieve the most cost effective delivery solution.
- (16)Telecoms – PETS/ Level Crossing – Unit costs were considerably higher than the previous year. As noted in the prior year's Regulatory Financial Statements the 2012/13 unit costs benefitted from the mix of projects in that year. Unit costs in 2013/14 were in line with those in 2011/12. Volumes decreased significantly as activity was deferred into future years.
- (17)Telecoms – Small signal box concentrator – volumes were lower than the previous year and lower than planned as some units were deferred from the current year into control period 5. Unit costs were in line with the previous year.
- (18)Telecoms – Customer info systems – volumes were noticeably higher in 2013/14 than the previous year which was mostly due to a low delivery of volumes in 2012/13. The lower 2012/13 volumes was noted in the prior year's Regulatory Financial Statements and was expected to reflect planned work banks activity. Unit costs were significantly lower than 2012/13 which, as noted, in the 2012/13 Regulatory Financial Statements was due to the relatively small number of units delivered in 2012/13 which distorted the unit rates in that year.
- (19)Telecoms – Long line address system – volumes were 17 per cent higher than the previous year. This is partly due to projects originally planned for 2012/13 being deferred into 2013/14, notably on Northern Rail sites. Unit rates were £1,000 higher than the previous year.

Statement 1: Scotland Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual ⁽¹⁾	Adjusted PR08	Difference	Actual
Income ⁽¹⁾	716	711	5	3,388	3,393	(5)	696
Expenditure							
Controllable opex ⁽²⁾	98	68	(30)	475	391	(84)	86
Non-controllable opex	54	38	(16)	204	183	(21)	48
Maintenance	84	110	26	481	590	109	91
Schedule 4 & 8	9	8	(1)	53	54	1	5
Renewals	337	240	(97)	1,508	1,620	112	303
Enhancements	261	8	(253)	903	480	(423)	108
Financing costs	121	152	31	730	749	19	144
Corporation tax	-	-	-	1	1	-	-
Rebates	32	-	(32)	79	-	(79)	33
Total expenditure	996	624	(372)	4,434	4,068	(366)	818

Notes:

- (1) Income does not include £13m recognised through the opex memorandum mechanism, all relating to amounts earned through volume incentives. (refer to Statement 10).
- (2) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased cumulative Maintenance costs by £7m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period. For the avoidance of doubt, note that comments about variances in these Regulatory financial statements refer to the current year rather than the cumulative position for the control period unless otherwise stated.
- (2) Income was broadly in line with the PR08 for the year and control period with additional electricity income compensating for lower freight income. More detailed variances are set out in Statement 6a.
- (3) Controllable opex was higher than the PR08 in both 2013/14 and the full control period in line with the Delivery Plan 2009. Controllable opex in the current year includes property dilapidation provision and a financial penalty of £5m levied by the ORR due to inadequate train performance and a further £3m committed to improving train performance and the passenger experience. Controllable opex costs are set out in more detail in Statement 7a.
- (4) Non-controllable operating costs were more expensive than the Regulator's determination assumed for both the current year and the full control period largely due to higher electricity expenses. This is set out in more detail in Statement 7a.

Statement 1: Scotland Summary regulatory financial performance continued

In £m 2013/14 prices unless stated otherwise

- (5) Maintenance costs were lower than the PR08 in both 2013/14 and over the control period as Network Rail delivered greater efficiencies than the Regulator assumed in its determination. These savings are presented in more detail in Statement 8a(1).
- (6) Net Schedule 4 & 8 costs were in line with the Regulator's assumption in the current year and favourable in the control period as Schedule 4 savings (arising from better planned possessions) were partly offset by higher Schedule 8 performance penalties as overall train punctuality was adverse to the regulatory targets for most of the control period. This is set out in more detail in Statement 10.
- (7) Renewals expenditure is set out in more detail in Statement 9a and is higher than the PR08 for 2013/14 largely due to re-profiling of expenditure within the control period and the delivery of additional outputs and projects over and above those set out by the Regulator in its PR08 determination. Expenditure in the control period was lower than the Regulator's assumption largely due to efficiencies achieved.
- (8) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 mostly due to re-profiling of expenditure within the control period and the impact of non-PR08 enhancements projects (such as Edinburgh-Glasgow Improvements (EGIP) and Borders Railway).
- (9) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (10) During the year rebates were paid to Transport Scotland to allow them to share in Network Rail's financial outperformance. Financial outperformance occurs when Network Rail saves even more money than expected under the regulatory settlement. Over the control period £64m was returned to Transport Scotland. The value of Rebates for the control period also includes amounts paid to Train Operating Companies, Freight Operating Companies and other Open Access Operators under the terms of the Efficiency Benefit Sharing Mechanism (EBSM). This system was designed to incentivize collaborative working practices between Network Rail and its track customers by allowed them to benefit from the financial outperformance achieved by Network Rail.

Statement 2a: Scotland RAB - regulatory financial position

In £m 2013/14 prices unless stated otherwise

A) Calculation of the Scotland RAB at 31 March 2014

	Actual	Adjusted PR08	Difference
Opening RAB for the year (2006/07 prices)	3,763	3,851	(88)
Indexation to 2012/13 prices	835	852	(17)
Opening RAB for the year (2012/13 prices)	4,598	4,703	(105)
Indexation for the year	122	124	(2)
Opening RAB (2013/14 prices)	4,720	4,827	(107)
Renewals	335	240	95
Enhancements PR08	19	8	11
Non-PR08 enhancements (added to RAB)	257	-	257
Total enhancements	276	8	268
Renewals & Enhancements funded from Ring Fenced Fund (RFF)	(75)	(75)	-
Amortisation	(218)	(218)	-
Adjustments for missed regulatory outputs	(3)	-	(3)
Closing RAB at 31 March 2014	5,035	4,782	253

RAB regulatory financial position - cumulative

B) Calculation of the cumulative Scotland RAB at 31 March 2014

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4 Total
Opening RAB (2013/14 prices)	4,081	4,273	4,480	4,573	4,720	4,081
Adjustments for the actual capex outturn in CP3	7	-	-	-	-	7
Renewals (added to the RAB)	261	280	254	333	335	1,463
Enhancements PR08	194	158	82	13	19	466
Non-PR08 enhancements (added to RAB)	-	47	40	91	257	435
Total enhancements	194	205	122	104	276	901
Renewals & Enhancements funded from RFF	(52)	(60)	(65)	(71)	(75)	(323)
Amortisation	(218)	(218)	(218)	(219)	(218)	(1,091)
Adjustments for missed regulatory outputs	-	-	-	-	(3)	(3)
Closing RAB	4,273	4,480	4,573	4,720	5,035	5,035

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year and, in Part B), from the start of the control period. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until and ex-post assessment has been completed by the Regulator after the end of the control period.

Statement 2a: Scotland RAB - regulatory financial position continued

In £m 2013/14 prices unless stated otherwise

- (2) Renewals – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 9a). Although Network Rail spent more on renewals in the current year than the PR08 assumed, not all of this variance was eligible for inclusion in the RAB. This was mostly because the Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances eligible for RAB addition to reflect the impact of input prices (measured using IOPI). In addition, under the rules of the rolling RAB mechanism any variance to the determination due to re-profiling of expenditure results in an adjustment for capitalised financing so that Network Rail does not benefit from (or is penalised for) this re-profiling.
- (3) Enhancements – the variance to the PR08 for the current year is mostly due to re-profiling of expenditure within the control period and between control periods (refer to Statement 3). The value of enhancements added to the RAB was higher than the ORR assumed due to expenditure on non-PR08 enhancement schemes. These schemes (such as Edinburgh-Glasgow Improvements (EGIP) and Borders Railway) were not included as part of the PR08 settlement but have been approved in principle for RAB addition by the ORR.
- (4) In preparing the PR13, the Regulator has considered the required RAB reductions to consider the value of missed outputs in control period 4. It has limited the financial affect to the RAB to 25 per cent of the value of the adjustment to be consistent with the Regulatory Accounting Guidelines' rules for the treatment of financial outperformance. There is a £3m reduction included in the RAB valuation above relating to missed train performance targets compared to the targets set out in the Regulator's determination. Note that the final value of this adjustment is subject to the ORR's Annual Financial and Efficiency Assessment.
- (5) In the recently published PR13 Determination the ORR have noted that they will reduce the control period 5 opening RAB by £0.1bn to reflect a perceived tax double count in control period 3. The ORR have advised us that this adjustment will only apply from 1 April 2014 and, therefore, it not included in the RAB valuation included in these Regulatory Financial Statements.

Statement 2b: Scotland RAB - reconciliation of expenditure

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14		Total as at 31/03/14	Actual	Cumulative	
	Adjustment	Capitalised financing			Adjusted PR08	Difference
Renewals						
Renewals in the determination			240	1,613	1,613	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(19)	1	(18)	5	3	2
CP3 deferrals to CP4	-	-	-	4	4	-
Seven day railway	-	-	-	-	-	-
Other adjustments to PR08	21	1	22	-	-	-
Adjusted PR08 determination (renewals)	2	2	244	1,622	1,620	2
Adjustments for the PR08 RAB roll forward policy						
Adjustments for deferrals of expenditure within CP4 ⁽¹⁾	182	(6)	176	(36)	-	(36)
Adjustments for deferral of expenditure to CP5	(27)	-	(27)	(27)	-	(27)
IOPI index adjustments	(36)	(4)	(40)	(96)	-	(96)
Adjustments for efficient overspend	(25)	1	(24)	2	-	2
25% retention of efficient overspend	6	-	6	2	-	2
Other adjustments to amounts to be logged up to RAB	-	-	-	(4)	-	(4)
Total Renewals (added to the RAB)	102	(7)	335	1,463	1,620	(157)
Adjustment for inefficient overspend			1	5	-	5
Adjustment for capitalised financing			7	38	-	38
Adjustment for 25% retention of efficient overspend			(6)	(2)	-	(2)
Other adjustments to reconcile to total expenditure			-	4	-	4
Total actual renewals expenditure (see Statement 9a)			337	1,508	1,620	(112)

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

	Movements in 2013/14		Total as at 31/03/14	Actual	Cumulative	
	Adjustment	Capitalised financing			Adjusted PR08	Difference
Enhancements						
Enhancements in PR08			8	489	489	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	19	(1)	18	(5)	(3)	(2)
CP3 deferrals to CP4	-	-	-	5	5	-
Other adjustments to PR08	(21)	-	(21)	(12)	(11)	(1)
Adjusted PR08 determination (enhancements)	(2)	(1)	5	477	480	(3)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for efficient over/under spend	(1)	-	(1)	(1)	-	(1)
25% retention of efficient over/under spend	-	-	-	-	-	-
Adjustments for acceleration/ (deferral) of expenditure within CP4 ⁽¹⁾	23	(1)	22	(3)	-	(3)
Adjustments for deferral of expenditure to CP5	(4)	-	(4)	(4)	-	(4)
Funds Adjustments	(3)	-	(3)	(3)	-	(3)
Total PR08 enhancements (added to the RAB)	13	(2)	19	466	480	(14)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	231	26	257	257	-	257
Non PR08 enhancements expenditure not qualifying for capitalised financing	-	-	-	178	-	178
Total non PR08 enhancements (added to the RAB)	231	26	257	435	-	435
Total enhancements (added to the RAB)	244	24	276	901	480	421
Adjustment for inefficient overspend			(2)	7	-	7
Adjustment for capitalised financing			(24)	(23)	-	(23)
Other adjustments to reconcile to total PR08 expenditure			-	2	-	2
Non PR08 expenditure						
Third party funded schemes			3	45	-	45
Other adjustments to reconcile to total non PR08 expenditure			11	16	-	16
Total actual enhancement expenditure (see Statement 3)			264	948	480	468

⁽¹⁾ The value in the cumulative column represents the total impact of capital financing adjustments over the control period.

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

Memo item 1 - Outstanding non-capex RAB

additions (cash prices)	2009/10	2010/11	2011/12	2012/13	2013/14
Brought forward balance	484	469	474	481	477
Indexation for the year	1	22	25	14	13
Amortisation	(16)	(17)	(18)	(18)	(19)
Closing balance	469	474	481	477	471

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until an ex-post assessment at the beginning of the next control period has been undertaken by the regulator.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Agreed adjustments to the PR08 arising from, for example, adjustments to outputs, errors in the determination and changes in funding;
 - b. Deferrals/ acceleration of capital works within the control period and net deferrals/ acceleration of capital works into/ from control period 5;
 - c. Changes in input prices as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) Renewals - Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (4) Renewals – Adjustments for deferral of expenditure to control period 5 relates to some track volumes postponed to future control periods. As this is not a genuine saving, the allowances in the PR08 not eligible for RAB addition under the Regulatory Accounting Guidelines.
- (5) Renewals - IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until at least September 2014. Once this is finalised, the control period 4 closing RAB will be revised and restated in the Regulatory Financial Statements for the year ending 31 March 2015. The Regulatory Accounting Guidelines require an adjustment to be made to the PR08 renewals allowances to reflect the impact of IOPI when assessing the value of renewals expenditure that can be added to the RAB. During the control period the IOPI index has increased by 11.1 per cent compared to the RPI equivalent figure of 17.2 per cent over the same period. This has the impact of reducing the PR08 renewals allowance eligible for RAB addition (including the impact of capitalised financing) by £39m in the year and £95m for the control period.

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (6) Renewals – Efficient overspend refers to projects where Network Rail delivered schemes over and above those required and funded in control period 4. Many of these schemes are designed to produce long run cost savings and operational improvements, the benefits of which will not all be realised in the current control period. Examples include amounts spent on the new national centre in Milton Keynes and ORBIS, the programme to improve asset management information, both of which will enable efficiency savings in control period 5 and beyond. Funding for these schemes were not included in the PR08. Under the terms of the Regulatory Asset Guidelines Network Rail bears the first 25 per cent of the cost of each of these projects, with the other 75 per cent being eligible for addition to the RAB. Under the terms of the Regulatory Accounting Guidelines efficient overspend is only eligible for addition to the RAB to the extent that these projects exceed the level of efficient underspend. In the control period. In the current year Scotland delivered efficient underspend and so the negative amount included in the current year reduces the cumulative control period value of efficient overspend.
- (7) Enhancements – Other adjustments to PR08 refers to other changes to the baseline agreed with the Regulator with the most notable item being de-scoping of the Glasgow Airport Rail Link programme which was renamed Paisley Corridor Improvements to reflect the reduced outputs of the scheme.
- (8) Enhancements – Efficient underspend represents savings made against the PR08 allowance whilst still delivering the required outputs for control period 4. Efficient underspend is recognised on a net basis for PR08 projects. This excludes any (in)efficiencies on schemes with their own tailored protocol (Airdrie to Bathgate) and ring fenced funds (for example, Tier 3 project development). Under the mechanics of the rolling RAB, Network Rail retains 25 per cent of outperformance through a notional RAB addition.
- (9) Enhancements - Adjustments for acceleration/ (deferrals) of expenditure within control period 4 represents re-phasing of expenditure during the control period compared with the Regulator's original determination. As a result of this re-phasing there is an adjustment made to capitalised financing to reflect the borrowing costs saved by Network Rail so that there is no benefit/ penalty from capital deferrals/ acceleration. The value in the cumulative column represents the total impact of this capital financing adjustment over the control period.
- (10) Enhancements - Adjustments relating to funds refers to instances where network Rail has spend less on named funds (see Statement 3) than the PR08 allowances. These specific funds do not have definitive outputs associated with them and, therefore, any underspend against the regulatory allowance does not represent an efficient underspend and Network Rail cannot recognise any benefit from this reduced expenditure.
- (11) Non-PR08 enhancements qualifying for capitalised financing. This is to reflect the additional borrowing costs that Network Rail has incurred as part of the cost of constructing this new asset as these financing costs would not have been included as part of the Regulator's revenue calculation.
- (12) Enhancements – Inefficient overspend occurs when Network Rail spends more than the PR08 allowance on particular schemes. The inefficient overspend is not eligible for addition to the RAB. The inefficient overspend referred to in the above tables relates to Airdrie Bathgate where the project was delivered on time and within Network Rail's internal budget but the cost was higher than fixed price specified in the PR08 funding settlement.

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2013/14 prices unless stated otherwise

- (13) Enhancements – Other adjustments to reconcile to total expenditure mostly refers to expenditure which is not eligible for addition to the RAB. As shown in Statement 3, Network Rail has spent £6m on Outperformance schemes, which is largely related to investment in the level crossing risk reduction programme, a scheme designed to remove level crossings from the network to improve public safety. There was no funding for this project in the regulatory settlement but Network Rail have funded this through its financial outperformance in the control period (refer to Statement 5). As noted above, income generated from non-PR08 enhancement schemes is deducted from the capital costs of the project to calculate how much is eligible for RAB addition. The Other adjustments line adds back this income to reflect the total level of expenditure shown in Statement 3.

Statement 2c: Scotland Summary of RAB movements

In £m 2013/14 prices unless stated otherwise

A) Renewals RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	387	372	329	285	240	1,613
Deferrals from CP3	4	-	-	-	-	4
Delivery plan additions/reductions	-	-	(19)	(3)	22	-
Delivery plan re-classifications	1	1	-	21	(18)	5
Adjusted PR08 determination	392	373	310	303	244	1,622
(Deferrals to)/ acceleration within CP4	(120)	(85)	(28)	21	176	(36)
Deferrals to CP5	-	-	-	-	(27)	(27)
IOPI index adjustment	(9)	(6)	(37)	(4)	(40)	(96)
Other adjustments	-	(4)	-	-	-	(4)
Adjustments for efficient over/(under) spend	(2)	2	9	13	(18)	4
Total additions to RAB	261	280	254	333	335	1,463

B) Enhancements RAB additions

Movements

	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
PR08 determination	207	152	112	10	8	489
Deferrals from CP3	4	1	-	-	-	5
Delivery plan additions/reductions	-	-	-	-	-	-
Delivery plan re-classifications	(1)	13	(32)	6	(3)	(17)
Adjusted PR08 determination	210	166	80	16	5	477
(Deferrals to)/ acceleration within CP4	(16)	(8)	2	(3)	22	(3)
Deferrals to CP5	-	-	-	-	(4)	(4)
Adjustments for efficient over/under spend	-	-	-	-	(1)	(1)
Other adjustments - Funds	-	-	-	-	(3)	(3)
PR08 determination additions to the RAB	194	158	82	13	19	466
Non-PR08 determination additions to the RAB	-	47	40	91	257	435
Total additions to RAB	194	205	122	104	276	901

Statement 3: Scotland Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Airdrie to Bathgate	(8)	-	8	246	240	(6)
Total Schemes covered by a tailored protocol or fixed price agreement	(8)	-	8	246	240	(6)
Funds						
Tier 3 project development	6	3	(3)	13	16	3
Small projects fund	13	5	(8)	25	25	-
Total Funds	19	8	(11)	38	41	3
Other PR08 funded schemes						
Paisley Corridor Improvements	8	-	(8)	169	173	4
Borders railway	2	1	(1)	2	4	2
Glasgow to Kilmarnock	-	-	-	18	17	(1)
Unallocated Overheads	-	-	-	2	-	(2)
Total Other PR08 funded schemes	10	1	(9)	191	194	3
CP4 Delivery Plan	21	9	(12)	475	475	-
Schemes carried over from CP3						
ERTMS	-	-	-	3	4	1
Cab fitment	-	-	-	1	1	-
Total Schemes carried over from CP3	-	-	-	4	5	1
Re-profiled expenditure due to programme deferral	-	(1)	(1)	-	-	-
Total PR08 funded enhancements (see Statement 2b)	21	8	(13)	479	480	1

Statement 3: Scotland Analysis of enhancement capital expenditure (continued)

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Edinburgh - Glasgow Improvements (EGIP)	105	-	(105)	207	-	(207)
Ayrshire Inverclyde	-	-	-	21	-	(21)
Edinburgh Waverley steps	-	-	-	11	-	(11)
Borders Railway	107	-	(107)	137	-	(137)
Paisley Canal line electrification	-	-	-	9	-	(9)
Rutherglen to Newton capacity	5	-	(5)	5	-	(5)
Rutherglen & Coatbridge electrification	11	-	(11)	11	-	(11)
Other Government sponsored schemes	3	-	(3)	3	-	(3)
Total Government sponsored schemes	231	-	(231)	404	-	(404)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	-	-	-	1	-	(1)
Acquisition of freight sites	1	-	(1)	1	-	(1)
Other income generating schemes	2	-	(2)	4	-	(4)
Adjustment for income generating schemes ⁽¹⁾	(2)	-	2	(3)	-	3
Total Network Rail sponsored schemes (income generating)	1	-	(1)	3	-	(3)
Schemes promoted by third parties						
FSR ticket gates	-	-	-	5	-	(5)
Adjustment for income generating schemes ⁽²⁾	(1)	-	1	(2)	-	2
Total Schemes promoted by third parties	(1)	-	1	3	-	(3)
Enhancement expenditure not meeting ORR criteria for RAB addition						
Outperformance expenditure	6	-	(6)	9	-	(9)
Schemes with pay back period within the control period	-	-	-	-	-	-
Schemes with facility fees	3	-	(3)	5	-	(5)
Total enhancement expenditure not meeting ORR criteria for RAB addition	9	-	(9)	14	-	(14)
Total Network Rail funded enhancements (see Statement 1)	261	8	(253)	903	480	(423)
Third party funded (PAYG)	3	-	(3)	45	-	(45)
Total enhancements (see Statement 2b)	264	8	(256)	948	480	(468)

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received as a direct result of completing such enhancements. For these schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.

Statement 3: Scotland Analysis of enhancement capital expenditure (continued)

In £m 2013/14 prices unless stated otherwise

- (2) Within schemes promoted by third parties is an adjustment for revenue received from third parties as a direct result of completing such enhancements. For such schemes, the amount to be added to the RAB at the end of control period 4 should be the capital expenditure less the total income received from that scheme during the control period.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition or from Network Rail's outperformance.
- (5) Enhancements in adjusted PR08 represent changes agreed with the regulator in the current year but may relate to previous years. Consequently, the relatively low adjusted PR08 allowance in the current year is a balancing figure to get the control period 4 total correct.
- (6) Overall, expenditure on PR08 enhancements was higher than the previous year mainly due to higher spending on Tier 3 project development and Small projects fund (as suitable schemes were identified to deliver improvements to the railway network) partly offset by movements on the Airdrie Bathgate project costs. These variances are explored in more detail in the below paragraphs.
- (7) Schemes covered by a tailored protocol of fixed price agreement – for Scotland, this section only covers Airdrie to Bathgate (which the PR08 specified a fixed price for the project with Network Rail bearing the risk/ reward of any over/ under spend. This project provided 22km of new route (as well as upgrading 31km of existing infrastructure) to connect the two sites. The project was delivered on time and in line with Network Rail's internal budget. However, expenditure on the total programme was higher than the fixed price allowed for the project set out in the PR08. This additional expenditure is not eligible for inclusion in the RAB (refer to Statement 2b) and results in financial underperformance (refer to Statement 3).
- (8) Funds – the PR08 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific project output. The regulatory allowances and actual expenditure on these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlined the criteria projects had to achieve to utilise these funds. Expenditure on these funds in Scotland in the control period was in line with the Regulator's assumption. The marginal underspend does not get added to the RAB under the rules set out in the Regulatory Accounting Guidelines (March 2014) and there is no financial outperformance recognised (refer to Statement 5).

Statement 3: Scotland Analysis of enhancement capital expenditure (continued)

In £m 2013/14 prices unless stated otherwise

- (9) PR08 funded schemes – most of these projects spent in line with the Regulator's assumption over the control period. The notable exception was Paisley Corridor Improvements where the scope of this scheme was reduced following discussions with the relevant stakeholders. The project was originally labelled GARL (Glasgow Airport Rail Link) but following the change in the required outputs the programme has been renamed with the revised funding allowance reflected in the above table. The saving in the control period represents financial outperformance (refer to Statement 5) and a proportion is eligible for addition to the RAB (refer to Statement 2b).
- (10) Non-PR08 RAB-funded enhancement expenditure in the year was almost one-and-a-half times higher than the previous year. Non-PR08 RAB-funded expenditure is broken down into the following categories:
- a. Government sponsored – significant increases in expenditure compared to 2013/14 due to progress on Borders Railway and EGIP projects.
 - b. Network Rail sponsored (income generating) – the increase compared to the prior year largely arose from the acquisition of freight sites.
 - c. Schemes promoted by third parties – this category has a total negative value because, as noted above, the income generated from these type of schemes is removed from the capital costs of the project so that only the net financial cost to Network Rail is added to the RAB. The value is in line with the previous year.
- (11) PAYG expenditure has decreased compared to the previous year, which mostly comprised of Dalmarnock station redevelopment costs.
- (12) Outperformance expenditure was £6m this year compared to £2m in the previous year primarily due to expenditure on reducing the number of level crossings in operation on the network. This is part of the company's continued commitment to improving the safety of the railway network. The level crossing risk reduction programme is being funded from savings made from outperforming the Regulator's determination (as set out in Statement 5).

Statement 4: Scotland Net debt and financial ratios

In £m cash unless stated otherwise

	2013/14			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt Scotland at 31 March 2014						
Opening net debt	2,774	2,802	28	2,081	2,118	37
Income						
Fixed charges	(322)	(322)	-	(955)	(958)	(3)
Total variable charges (including EC4T)	(53)	(41)	12	(220)	(195)	25
Grant income	(288)	(290)	(2)	(1,746)	(1,758)	(12)
Total other single till income	(53)	(58)	(5)	(255)	(272)	(17)
Other income	-	-	-	-	-	-
Total income	(716)	(711)	5	(3,176)	(3,183)	(7)
Expenditure						
Controllable operating expenditure	98	71	(27)	441	366	(75)
Non-controllable operating expenditure	54	38	(16)	192	171	(21)
Maintenance expenditure	84	110	26	451	551	100
Schedule 4&8	9	8	(1)	49	49	-
Renewals expenditure	337	240	(97)	1,421	1,500	79
Enhancement expenditure	261	9	(252)	845	438	(407)
Total expenditure	843	476	(367)	3,399	3,075	(324)
Financing						
Interest expenditure on nominal debt - FIM covered	56	67	11	278	344	66
Interest expenditure on IL debt - FIM covered	20	22	2	91	89	(2)
Accretion on IL debt - FIM covered	25	34	9	221	140	(81)
Expenditure on the FIM	20	21	1	95	97	2
Interest costs	121	144	23	685	670	(15)
Interest expenditure on nominal debt - unsupported	-	8	8	-	37	37
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	121	152	31	685	707	22
Corporation tax	-	-	-	1	1	-
Rebates	32	-	(32)	76	-	(76)
Other¹	(89)	1	90	(101)	2	103
Movement in net debt	191	(82)	(273)	884	602	(282)
Closing net debt	2,965	2,720	(245)	2,965	2,720	(245)

	2009/10	2010/11	2011/12	2012/13	2013/14
⁽¹⁾ Other					
Movements in working capital	-	(13)	(21)	(5)	(89)
Other	27	-	-	-	-

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Financial Ratios

	2009/10	2010/11	2011/12	2012/13	2013/14
Adjusted interest cover ratio (AICR)	1.69	1.84	2.20	2.53	2.64
FFO/interest	3.89	4.07	4.34	4.77	4.91
Net debt/RAB (gearing)	62.6%	62.9%	61.5%	60.3%	58.9%
FFO/debt	14.4%	14.1%	15.7%	16.3%	15.9%
RCF/debt	10.7%	10.7%	12.1%	12.9%	12.6%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%	5.2%	4.8%	4.7%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.4%	1.4%
FIM fee in %	0.8%	0.8%	0.8%	0.8%	0.8%
Average interest costs on nominal debt - unsupported	N/A	N/A	N/A	N/A	N/A
Average interest costs on IL debt (excl. accretion) - unsupported	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) The actual 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.
- (2) PR08 represents original regulatory assessment of income and expenditure and does not reflect agreed adjustments to the determination that have emerged after the PR08 publication as this would necessitate reclassification of financing and debt assumptions in the PR08.

Comments:

- (1) Network Rail issues debt for the company as a whole and does not raise separate debt for its operations in Scotland. A notional split of the debt was calculated from 1 March 2005, which is updated for all subsequent income and expenditure relating to Scotland.
- (2) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines March 2014. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (3) The above statement shows that the closing debt for the control period is £265m (10 per cent) higher than that assumed by the Regulator. This was mostly due to:
 - a. Additional enhancement expenditure – as shown in Statement 3 Network Rail delivered projects worth £424m (2013/14 prices) that the Regulator did not include in their funding settlement
 - b. Rebates - Network Rail paid out £76m of rebates during the control period to allow stakeholders (mostly government, but also train operating companies, freight operating companies and open access operators) to share in Network Rail's financial outperformance

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- c. Lower renewals expenditure – the above is partly offset by lower expenditure on renewals, primarily a result of financial outperformance
 - d. Opening debt – this is lower than the Regulator's assumption by £37m
 - e. Other – this is largely due to movements in working capital
- (4) Controllable opex is shown in more detail in Statement 7a.
- (5) Non-controllable opex is shown in more detail in Statement 7a.
- (6) Maintenance is shown in more detail in Statement 8a.
- (7) Schedule 4 & 8 is shown in more detail in Statement 10.
- (8) Renewals expenditure is shown in more detail in Statement 9a.
- (9) Enhancements expenditure is shown in more detail in Statement 3.
- (10) Financing – Network Rail incurred interest expenses on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). The FIM is a facility provided to Network Rail by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations unconditionally. The chance of that indemnity being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08. The PR08 also assumed that Network Rail would issue debt that was not supported by the FIM. However, this has not been the case.
- (11) Financing – Costs for the year were slightly lower than the previous year despite an increase of approximately 6 per cent in average net debt. The lower expense was due to lower accretion on index linked debt, arising from lower RPI at the dates used to calculate accretion compared to those in the previous year and lower interest rates on nominal debt. Although closing debt was higher than the Regulator's assumption, average debt during the control period was lower, contributing to the lower interest costs in the control period. Interest costs in the control period also benefitted from favourable commercial settlements.
- (12) Other – the value in 2009/10 includes a £27m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (13) Financial ratios – ratios are defined as follows:

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

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines March 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (14) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 58.9 per cent (2013: 60.3 per cent). The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utility companies face. The gearing ratio is well within the Great Britain limit in the revised Licence condition of 75.0 per cent for the current year.
- (15) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all net running costs including as assumption for steady state renewals. Network Rail's AICR for the year was 2.64 (2013: 2.53), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as the business generated operational revenue 164 per cent greater than the cash required to pay net financing costs.

Statement 5: Scotland Financial performance statement

In £m 2013/14 prices unless stated otherwise

Cumulative

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(417)	(434)	(1,365)	(2)	(2,218)
Adjustments in DP09 in 2009/10 prices	-	-	20	-	20
Inflation adjustment from 2009/10 to nominal prices	(37)	(42)	(153)	-	(232)
Adjusted DP09 in nominal prices	(454)	(476)	(1,498)	(2)	(2,430)
Actuals in nominal prices	(445)	(444)	(1,365)	(2)	(2,256)
(Under)/ out performance in nominal prices	9	32	133	-	174

Pot 2	Income	Enhance-ments	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	2,830	(410)	(174)	(569)	-		1,677	(541)
Adjustments in DP09 in 2009/10 prices	107	(5)	-	196	-		298	318
Inflation adjustment from 2009/10 to nominal prices	187	(28)	(20)	(64)	-		75	(157)
Adjusted DP09 in nominal prices	3,124	(443)	(194)	(437)	-		2,050	(380)
Actuals in nominal prices	3,104	(447)	(193)	(368)	1		2,097	(159)
(Under)/ out performance in nominal prices	(20)	(4)	1	69	1	7	54	228

Statement 5: Scotland Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

2013/14

Pot 1	Operating costs	Maintenance costs	Renewals	Renewals rollover	Pot 1 total
DP09 in 2009/10 prices	(76)	(82)	(240)	-	(398)
Adjustments in DP09 in 2009/10 prices	1	-	(99)	-	(98)
Inflation adjustment from 2009/10 to nominal prices	(7)	(11)	(61)	-	(79)
Adjusted DP09 in nominal prices	(82)	(93)	(400)	-	(575)
Actuals in nominal prices	(98)	(83)	(286)	-	(467)
(Under)/ out performance in nominal prices	(16)	10	114	-	108

Pot 2	Income	Enhancements	Non-controllable opex	Interest	Tax	Other	Pot 2 total	Pot 1 & Pot 2 total
DP09 in 2009/10 prices	559	32	(39)	(122)	-		430	32
Adjustments in DP09 in 2009/10 prices	53	(71)	-	172	-		154	56
Inflation adjustment from 2009/10 to nominal prices	86	(6)	(8)	(52)	-		20	(59)
Adjusted DP09 in nominal prices	698	(45)	(47)	(2)	-		604	29
Actuals in nominal prices	691	(35)	(54)	11	-		613	146
(Under)/ out performance in nominal prices	(7)	10	(7)	13	-	12	21	129

Note:

- (1) This statement uses the same principles as Network Rail's internal measure of financial outperformance: Financial Value Assesed ("FVA"). FVA represents the amount that Network Rail has outperformed the Regulators' post efficient determination and so represents savings over and above those the Regulator expected in the control period. FVA is measured on a "cash basis" and so does not include accretion on debt instruments.

Comments

- (1) FVA is reported on a 'gross' basis and excludes assessment of the impact of missing regulatory outputs. Network Rail recognises that a number of regulatory outputs for the control period have been missed which need to be considered when assessing Network Rail's performance in the control period. FVA includes £5m for the financial penalty imposed in the current year for missed outputs for long distance train performance and a further £3m committed to improving train performance and the passenger experience. This is because these items result in a cash payment from (see below).
- (2) The Other column within Pot 2 represents the total difference between the PR08 and Network Rail's Delivery Plan 2009. This is adjusted so that the total financial outperformance can be measured against the Regulator's PR08 determination.

Statement 5: Scotland Financial performance statement continued

In £m 2013/14 prices unless stated otherwise

- (3) The above table shows that Network Rail have generated more outperformance in total than expected in the Regulator's determination both in the year and in the control period.
- (4) In the current year the FVA generated mainly arose from recognition of renewals efficiencies. With the conclusion of the control period it was possible to undertake a full assessment of Network Rail's delivery of capital projects. These were partly offset by higher operating costs (including the provision for ORR financial penalty and provisions for corporate restructuring).
- (5) Operating costs financial underperformance in the year eliminates much of the outperformance included in the previous years' Regulatory Financial Statements. The current year includes a financial penalty of £5m levied by the ORR due to inadequate train performance and a further £3m committed to improving train performance and the passenger experience. The Regulator has decided to charge Network Rail £1.5m for every 0.1% shortfall in the long distance PPM result compared to the ORR regulatory target (which is modified for factors perceived to be outside of Network Rail's influence. Operating costs this year also included the costs for management re-organisation and relocation of certain corporate functions to the National Centre in Milton Keynes as well as provisions for commercial claims in property which have all caused financial underperformance in the year. Operating costs have contributed £9m of financial outperformance in the control period which represents a 2 per cent saving against the post-efficient Delivery Plan 2009 baseline.
- (6) Maintenance costs for the control period were lower than assumed in the Delivery Plan 2009. This was achieved through a variety of contributory initiatives. These include the re-organisation of maintenance staff to provide common terms & conditions to allow for more efficient rostering and work planning, reducing overtime costs and allowing greater operational flexibility. Additional training and resource enabled more tasks to be taken in-house, reducing contractor and consultant costs. Financial outperformance of £32m in the control period represents savings of 7 per cent compared with the post-efficient Delivery Plan 2009 baseline.
- (7) Renewal outperformance represents the net position across the asset portfolio. There has been outperformance on a number of asset categories (such as operational property, plain line track and electrification) which has offset higher than expected costs in areas such as track switches & crossings unit costs and discretionary projects.
- (8) Income in 2013/14 and the control period was lower than expected mainly as a result of higher Schedule 8 costs. The Delivery Plan 2009 assumed £nil performance income/ costs compared to costs of over £12m across the control period. Income for the control period also includes savings on Schedule 4 costs mostly arising from better planning of possessions.
- (9) Enhancements portfolio has been delivered for more than planned during the control period. This was due to additional costs on the Airdrie-Bathgate project partly offset by savings on the Paisley Corridor Improvement programme.
- (10) Non-controllable costs were in line with expectation over the control period.
- (11) Interest savings in the year were largely a result of lower nominal interest rates than assumed at the time of the Delivery Plan 2009. At the time the Delivery Plan 2009 the turbulent macro economic situation and outlook resulted in assumed higher rates. Lower levels of debt during the control period have also contributed to lower interest expenses. Interest outperformance in the control period also benefits from the favourable settlement of a commercial claim (£6m) and gains on the re-structuring of finance leases (£2m). Interest only assesses over/under performance on nominal debt and does not include accretion on debt instruments.

Statement 6a: Scotland Analysis of income

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference	2012/13 Actual
Fixed charges	322	322	-	1,000	1,004	(4)	280
Variable charges							
Variable usage charge	14	12	2	65	57	8	13
Traction electricity charges	22	14	8	81	68	13	18
Electrification asset usage charge	1	1	-	4	3	1	1
Capacity charge	6	6	-	30	28	2	7
Station usage charges	-	-	-	-	-	-	-
Schedule 4 net income	10	8	2	55	54	1	10
Schedule 8 net income	-	-	-	-	-	-	-
Total gross variable charge income	53	41	12	235	210	25	49
Total franchised track access income	375	363	12	1,235	1,214	21	329
Grant income	288	290	(2)	1,879	1,889	(10)	311
Total franchised track access and grant income	663	653	10	3,114	3,103	11	640
Other single till income							
Property income	7	7	-	41	38	3	7
Freight income	7	12	(5)	36	57	(21)	7
Open access income	-	-	-	-	-	-	-
Stations income	31	33	(2)	158	162	(4)	33
Depots income	8	6	2	39	32	7	9
Other	-	-	-	-	1	(1)	-
Total other single till income	53	58	(5)	274	290	(16)	56
Total income	716	711	5	3,388	3,393	(5)	696

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable by Network Rail under the Opex memorandum (including amounts earned through the volume incentive). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include rebates paid to stakeholders. These are disclosed separately in Statement 1

Statement 6a: Scotland Analysis of income continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) This Statement shows Network Rail's income compared to the PR08. Fixed charges and grants are largely predetermined. The remaining income types are variable.
- (2) Fixed charges – these are in line with the PR08 and higher than previous year, representing a planned increase in the Regulator's income model. This was partly offset by a decrease in the level of Grant income received in 2012/13 compared to the previous year as Transport Scotland altered the mix of funding away from government to train operator in line with their funding plans. Fixed charge income for the control period was less than 0.5 per cent different to the PR08 assumption with the variance arising from minor differences in the inflation used to calculate the actual amounts payable by train operators and the inflation applied to the Regulator's determination.
- (3) Variable usage charge – this was higher than the PR08 and the previous year as Network Rail provided an increased number of paths to franchised train operators to run more services for the public. Better planning of capital and maintenance works also helped increase the availability of the network for operators to run train services. Variable usage charges for the control period were £8m higher than the PR08 as Network Rail provided more train paths to operators resulting in marginal income from track access.
- (4) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over these. In this respect traction electricity charges should be considered non-controllable income just as traction electricity charges payable are classified as non-controllable opex in the PR08. Income is £4m higher than 2012/13 due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. Electricity traction costs were £2m higher compared to the previous year reflecting this increase in market rates. Both traction electricity income and costs were £8m higher than the PR08 determination for 2013/14. Income earned through Traction electricity charges for CP4 were 19 per cent higher than the Regulator's determination with a corresponding 25 per cent underperformance in electricity costs (as shown in Statement 7a)
- (5) Grant income – grant income was lower than the previous year but in line with the Regulator's determination, with compensating amounts receivable through Fixed charges. Grant income in the control period was 0.5 per cent different to the PR08 determination which resulted in Network Rail underperforming the determination by £10m. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November RPI index for each year during 2009-14) and the rates used to calculate the grant payments which are a year in arrears (being the November RPI index for each year during 2008-13).
- (6) Property income – property income for the year was in line with 2012/13 and the PR08 determination. Property income for the whole of control period 4 was favourable to the Regulator's assumption by 8 per cent. This was largely a result of additional sales made in Scotland as suitable opportunities presented themselves and the favourable settlement of a commercial claim.
- (7) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £7m during the control period, 75 per cent more than the Regulator assumed which is the result of Network Rail's problems in achieving train performance targets in the control period.

Statement 6b: Scotland Analysis of other single till income

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference	Actual
Property Income							
Property sales income	-	-	-	5	4	1	-
Other property income	7	7	-	36	34	2	7
Total property income	7	7	-	41	38	3	7
Freight income							
Freight variable usage charge	6	8	(2)	32	41	(9)	6
Freight EC4T	-	1	(1)	4	3	1	1
Freight EAU	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	2	2	-	-
Freight performance payments net income	(1)	(1)	-	(7)	(4)	(3)	(1)
Coal spillage charge (incl investment charge)	-	-	-	-	1	(1)	(2)
Freight only line charge	1	2	(1)	4	9	(5)	3
Freight connection agreements and other income	1	1	-	1	5	(4)	-
Total Freight income	7	12	(5)	36	57	(21)	7
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Other open access charges	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Retail income	6	7	(1)	32	34	(2)	5
Advertising income	-	-	-	4	-	4	1
Concessions income	-	1	(1)	2	5	(3)	2
Long term charge	3	3	-	14	13	1	2
Qualifying expenditure	4	5	(1)	21	23	(2)	5
Other	-	-	-	-	-	-	-
Total	13	16	(3)	73	75	(2)	15
Franchised stations income							
Long term charge	15	15	-	72	76	(4)	15
Stations lease income	2	2	-	11	11	-	2
Other	1	-	1	2	-	2	1
Total	18	17	1	85	87	(2)	18
Total stations income	31	33	(2)	158	162	(4)	33
Depots income	8	6	2	39	32	7	9
Other income	-	-	-	-	1	(1)	-
Total other single till income	53	58	(5)	274	290	(16)	56

Statement 6b: Scotland Analysis of other single till income continued

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative			2012/13
	Actual	PR08	Difference	Actual	PR08	Difference	Actual
Memo:							
Investment framework income							
Stations related	1	-	1	2	-	2	1
Depot related	-	-	-	-	-	-	-
Track related	-	-	-	-	-	-	-
Total investment framework income	1	-	1	2	-	2	1

Memo item:						
	2009/10	2010/11	2011/12	2012/13	2013/14	Cumulative
Hypothecated gains in year	-	-	-	-	-	-

Comments:

- (1) Property income - property income for the year was in line with 2012/13 and the PR08 determination. Property income for the whole of control period 4 was favourable to the Regulator's assumption by 8 per cent. This was largely a result of additional sales made in Scotland as suitable opportunities presented themselves and the favourable settlement of a large commercial claim.
- (2) Freight income – freight income was in line with the previous year. However, it was lower than the PR08 for the year and for the control period. Under the new pricing structure for control period 4, Network Rail would have to increase freight traffic on the network by nearly 40 per cent in order to match the level of revenue assumed in the PR08. Compensation payable to freight operating companies for poor performance totalled £7m during the control period, 75 per cent more than the Regulator assumed which is a result of Network Rail's problems in achieving train performance targets in the control period.

Statement 6c: Scotland Analysis of income by operator

In £m 2013/14 prices unless stated otherwise

Franchised Train Operating Companies

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Cross Country						
Variable Usage Charges	-	0.6	0.8	0.7	0.7	2.8
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	1.1	0.6	0.8	0.8	0.8	4.1
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	0.2	0.2
Station QX	-	0.2	-	-	0.3	0.5
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total income	1.1	1.4	1.6	1.5	2.0	7.6

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
East Coast Main Line Rail						
Variable Usage Charges	2.4	2.6	1.6	1.0	2.2	9.8
Traction Electricity Charges	2.4	1.8	-	-	-	4.2
Electrification Asset Usage Charges	-	0.1	0.1	-	0.1	0.3
Capacity Charges	1.1	0.6	0.6	0.3	0.6	3.2
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	1.1	-	-	0.3	1.4
Station QX	1.1	0.4	-	-	0.5	2.0
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	0.3	1.4	1.4	1.4	4.5
Total income	7.0	6.9	3.7	2.7	5.1	25.4

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Scotrail						
Variable Usage Charges	6.9	6.6	7.2	7.7	8.6	37.0
Traction Electricity Charges	11.5	10.1	11.4	12.0	11.1	56.1
Electrification Asset Usage Charges	-	0.4	0.4	0.5	0.6	1.9
Capacity Charges	2.4	2.5	2.7	2.8	3.1	13.5
Fixed Charges	130.4	129.4	139.1	280.5	322.2	1,001.6
Station Long Term Charges	2.4	17.2	11.0	19.4	18.0	68.0
Station QX	3.5	3.1	3.5	3.5	3.4	17.0
Station Facility Charge	-	-	-	-	0.6	0.6
Other Charges	-	4.4	2.6	5.9	5.3	18.2
Total income	157.1	173.7	177.9	332.3	372.9	1,213.9

Statement 6c: Scotland Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Transpennine						
Variable Usage Charges	-	0.3	0.3	0.3	0.4	1.3
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	0.3	0.3	0.3	0.3	1.2
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	0.3	-	-	-	0.3
Station QX	-	0.1	-	-	0.1	0.2
Station Facility Charge	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total income	-	1.0	0.6	0.6	0.8	3.0

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Virgin West Coast						
Variable Usage Charges	2.4	2.0	2.0	2.3	2.6	11.3
Traction Electricity Charges	2.4	1.8	-	-	-	4.2
Electrification Asset Usage Charges	1.1	0.2	0.2	0.1	0.2	1.8
Capacity Charges	-	1.3	1.3	1.4	1.5	5.5
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	0.6	-	-	0.2	0.8
Station QX	-	0.3	-	-	0.5	0.8
Station Facility Charge	-	0.4	-	-	-	0.4
Other Charges	-	-	-	-	-	-
Total income	5.9	6.6	3.5	3.8	5.0	24.8

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Consolidated Non-Franchised Train Operators						
Variable Usage Charges	-	-	-	-	-	-
Traction Electricity Charges	-	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-	-
Capacity Charges	-	-	-	-	-	-
Fixed Charges	-	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-	-
Station QX	-	-	-	-	-	-
Station Facility Charge	-	-	-	-	-	-
Performance regime	-	-	-	-	-	-
Other Charges	-	-	-	-	-	-
Total income	-	-	-	-	-	-

Statement 6c: Scotland Analysis of income by operator continued

In £m 2013/14 prices unless stated otherwise

	Actual income					
	2009/10	2010/11	2011/12	2012/13	2013/14	CP4
Consolidated Freight Operating Companies						
Variable Usage Charges	5.9	7.0	7.0	5.6	5.6	31.1
Traction Electricity Charges	1.1	1.0	0.7	0.5	0.5	3.8
Capacity Charges	-	0.5	0.5	0.4	0.4	1.8
Performance Regime	(1.1)	(2.2)	(1.6)	(1.4)	(1.5)	(7.8)
Freight Only Line & Coal Spillage Charge	-	0.7	0.9	1.5	1.3	4.4
Freight Connection Agreements and Other Income	-	0.1	0.1	0.4	1.1	1.7
Total income	5.9	7.1	7.6	7.0	7.4	35.0

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the above tables do not include any payments made to operators under the Efficiency Benefit Sharing Mechanism. Total payments under this mechanism are reported in Statement 1.
- (3) No PR08 comparison has been provided by the ORR for this schedule.
- (4) Station long term charges in 2009/10 did not include income from franchised stations.

Statement 7a: Scotland Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽¹⁾	Cumulative Adjusted PR08	Difference
Controllable operating expenditure						
Signaller staff costs	24	17	(7)	115	91	(24)
Non-signaller staff costs	66	48	(18)	329	260	(69)
Staff incentives	7	-	(7)	31	-	(31)
Other employee related costs	15	5	(10)	59	29	(30)
Pensions	7	3	(4)	42	33	(9)
Consultants/contractors/agency (incl ORR financial penalty)	23	8	(15)	67	44	(23)
Insurance and claims	3	6	3	34	34	-
Accommodation, office, property	7	9	2	42	50	8
Information management	6	4	(2)	26	21	(5)
Other	18	13	(5)	96	74	(22)
Total gross controllable operating expenditure	176	113	(63)	841	636	(205)
Less:						
Other operating income	(12)	(9)	3	(79)	(47)	32
Own work capitalised	(66)	(36)	30	(287)	(198)	89
Total controllable operating expenditure	98	68	(30)	475	391	(84)
Non-controllable operating expenditure						
Traction electricity costs	23	15	(8)	86	69	(17)
Cumulo rates	20	13	(7)	64	65	1
British Transport Police costs	8	7	(1)	39	34	(5)
Rail Safety and Standards						
Board levy	1	1	-	5	5	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	2	2	-	10	10	-
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	54	38	(16)	204	183	(21)
Total operating expenditure	152	106	(46)	679	574	(105)

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentives figures of £2m and a decrease in pension expense of £5m. These costs are now included within Maintenance costs.

Comments:

- (1) Network Rail's costs are categorised between Operating costs (as shown in the above table) and Maintenance costs (refer to Statement 8a). Operating costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines the scope of non-controllable costs in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines March 2014.

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (2) Signaller staff costs – costs are £1m higher than the previous year and £7m higher than the Regulator's determination. Reducing signaller staff numbers is the main strategy for reducing Signaller staff costs. Savings from headcount reduction partly offset management's decision to award signallers above inflation pay rises. Expenses for the year are significantly higher than the Regulator's determination assumed. The main way Network Rail can reduce costs in line with the 16.4 per cent that the PR08 assumed by 2013/14 would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base. However, initiating such wide ranging plans takes time. Signaller staff costs for the control period are 26 per cent higher than the determination assumed as a result of the above inflation pay rises granted to staff and the difficulty in achieving the efficiencies contained in the determination.
- (3) Non-signaller staff costs – these costs are 2 per cent higher than the prior year mainly due to an increase in non-signaller staff headcount within Operations & Customer Services. These additional resources were used to deliver capital projects meaning that although staff costs increased, there was a corresponding increase in Own work capitalised. Over the control period expenditure on Non-signaller staff costs was over 25 per cent higher than the Regulator assumed. There was a number of contributory factors to this such as: increased delivery of capital projects in-house rather than through external contractors in order to improve responsiveness (there is a corresponding increase in Own work capitalised to reflect this); organisational changes such as the enhanced scope of Asset Management and devolution which have reconfigured Network Rail into a more agile organisation. Network Rail's Delivery Plan 2009 expected that Non-signaller staff costs would not achieve the Regulator's target.
- (4) Staff incentives – these costs are lower than the previous year as achievement against the incentive targets was lower this year, reflecting the difficulty Network Rail had in achieving performance targets. Like many organisations, Network Rail uses staff incentives as a key part of employee compensation in order to motivate and retain staff. The Regulator's determination assumed there would be no staff incentives payable in the year or control period, despite ORR having a licence condition (LC16) that requires Network Rail to have a management incentive plan for executive directors and other employees.
- (5) Other employee related costs – costs for the year are £7m higher than last year. This is mostly due to higher redundancy costs in 2013/14 as Network Rail reorganises its workforce to meet the financial challenges set out in the PR13 determination. Costs are higher than the PR08 regulatory settlement for both the current year and the control period. The in year variance is largely due to the redundancy costs noted above, and additional training and travel costs (partly associated with the move to the National Centre Milton Keynes). The higher costs for the control period are also driven by additional redundancy costs as well as higher training and travel costs than the PR08 assumed.
- (6) Pensions – costs are in line with the previous year but are higher than the Regulator's determination for the current year and the control period. This was largely due to Network Rail not reducing headcount and staff costs as much as the Regulator expected (as noted above).

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (7) Consultants/contractors/agency (incl ORR financial penalty) – these costs are £10m higher than the previous year. This is mostly due to the financial penalty levied by ORR for the missed performance targets on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1 per cent that it missed the regulatory punctuality target of 92 per cent for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period, parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, other external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £5m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, there were some additional costs recognised for the delivery of capital projects (matched by a credit in Own work capitalised). Finally, there were some extra costs relating to the various safety initiatives Network Rail is undertaking to help reinforce safety as a central objective of the company. Costs in 2013/14 and the control period are higher than the Regulator's allowance largely due to the ORR financial penalty noted above, higher agency staff costs, and additional consultants' costs to deliver capital works. These are partly offset by the higher than expected Own work capitalised in the above table.
- (8) Insurance and claims – costs are lower than the PR08 for the current year. This is mainly due to Network Rail changing its insurance arrangements so that in exchange for lower insurance premiums higher excess amounts were payable for each claim. This meant that a number of incidents previously covered by Network Rail's insurance arrangements now fell outside its scope (being below the excess), resulting in additional costs elsewhere, notably Schedule 8 (refer to Statement 10), Schedule 4, Renewals and Maintenance. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to replace damaged infrastructure.
- (9) Accommodation, office, property – costs in the current year are in line with the previous year and are slightly lower than the PR08 continuing the trend seen during earlier years of the control period.
- (10) Information management – costs in the year are in line with the previous year but higher than the PR08 assumed, continuing the trend seen in previous years. The Regulator's determination assumed that Network Rail would be able to reduce its Information management costs by 16.4 per cent over the course of the control period. However, Network Rail has had to spend more on the IT infrastructure required to support the company. This is partly due to additional renewals projects being delivered through Information management staff resulting in higher costs in this category offset by higher amounts in Own work capitalised.

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (11) Other controllable costs – costs are around 20 per cent lower than the previous year. This was mainly a result of lower Private Party Costs (less work has been completed for third parties compared to the previous year – the income relating to this is included within other operating income in the above table which has decreased as a result of this). Costs for the control period are higher than the Regulator assumed. This was mostly due to: expenditure on private party activity (recovered through Other operating income); higher utilities costs (recovered through Other operating income) and higher Telecoms costs (recovered through Other operating income).
- (12) Other operating income – income in the year was £4m lower than the previous year. This was mostly the result of lower private party works (also reflected in Other above). Other operating income was higher than the Regulator assumed for 2013/14. Contributing factors include additional managed stations income (larger car parks and more left luggage), higher recovery of utility costs (resulting from higher utility costs noted above in Other costs), private sidings income and disposal of rail (which contributed to the higher costs in Other). Over the control period Network Rail generated £32m more Other operating income than the Regulator assumed. This was largely a result of: additional private party works (which resulted in a corresponding increase in Other operating costs); additional recovery of other costs for works and services undertaken for third parties (such as private sidings recoveries and telecoms) which resulted in higher operating costs in other categories; and identifying additional commercial opportunities (such as increased managed stations income).
- (13) Own work capitalised – this amount is higher than the PR08 for the current year and for the control period. The PR08 assumed both a lower level of costs and a lower level of costs recovered to capital projects than Network Rail's Delivery Plan 2009. More capital works have been delivered in-house rather than using third parties as Network Rail seeks the most efficient ways to deliver its outputs. This has resulted in higher costs in the categories within gross controllable operating expenditure in the above table. The level of Own work capitalised is approximately 5 per cent higher than the previous year. This is largely due to higher internal delivery of capital projects. As shown in Statement 3 and Statement 9a, capital expenditure was significantly higher this year than in 2012/13.
- (14) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs and traction electricity costs are driven by the prevailing market rate for these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in 2013/14 are £8m higher than the PR08 due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a, where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also £8m higher than the Regulator assumed. Total costs for the control period are £17m higher than the PR08 determination due to higher market electricity prices than assumed. This is negated by a £18m favourable variance within electrification income (refer to Statement 6a).
- (15) Cumulo rates – these are 15 per cent higher than the previous year. Cumulo rates are the business rates Network Rail pays on its network assets and are assessed by the Valuation Office Agency (an executive agency of HMRC) on a rolling five year cycle. The latest rates were set in 2010, after the PR08 had been published. Actual costs in the control period were in line with the Regulator's determination.

Statement 7a: Scotland Analysis of operating expenditure continued

In £m 2013/14 prices unless stated otherwise

- (16) British Transport Police – costs in the current year are 6 per cent higher than the previous year mostly due to additional costs for a dedicated cable theft team within the British Transport Police. Cable theft has been a significant blight on performance (both train and freight) during the control period so Network Rail has invested in additional resource to combat these risks. Costs for the control period and the current year are noticeably more than the Regulator's assumption. This was partly due to the extra cost of battling cable theft and also from Network Rail's unwillingness to cut British Transport Police services which could endanger the travelling public.

Statement 7b: Scotland Analysis of operating expenditure by activity

In £m 2013/14 prices unless stated otherwise	CP3			CP4				
	2006/07	2007/08	2008/09	2009/10 ⁽¹⁾	2010/11	2011/12	2012/13	2013/14
Controllable operating expenditure								
Human resources								
Functional support	2	2	2	2	2	3	2	3
Training	3	3	3	3	3	2	2	2
Graduates	-	-	-	-	-	-	-	-
Apprenticeships	1	1	1	1	1	1	1	1
Other	-	-	1	1	1	1	1	-
Total	6	6	7	7	7	7	6	6
Information management								
Support	-	-	1	1	1	1	1	1
Projects	1	1	-	1	1	1	-	-
Business Operations	6	5	5	5	6	5	5	5
Other	-	-	-	1	-	-	-	-
Total	7	6	6	8	8	7	6	6
Operations & customer services								
signalling	22	23	24	24	23	24	23	24
Operations & customer services non-signalling								
MOMS Staff Costs	2	2	2	3	2	2	2	3
Control staff costs	2	1	1	-	3	3	3	4
Planning & Performance Staff Costs	1	1	1	-	1	2	2	2
Managed Stations Staff Costs	1	1	1	1	2	2	2	1
Operations Management Staff Costs	1	1	1	1	1	1	1	3
Other	9	9	8	16	11	9	8	5
Total operations & customer services costs	38	38	38	45	43	43	41	42
Finance	2	2	2	2	3	3	3	2
Contracts & procurement	1	1	-	-	-	-	1	1
Strategic Sourcing	-	-	4	5	5	4	-	-
Planning & development	1	1	1	1	1	1	1	1
Safety & sustainable development	-	-	-	-	-	-	1	1
Other corporate services	3	3	3	4	4	3	5	5
Commercial property	4	4	7	5	5	8	5	6
Infrastructure Projects	(1)	-	(1)	-	-	2	(3)	(6)
Route asset management	-	-	-	-	-	-	1	-
Route Services	-	-	-	-	-	-	-	2
Asset management & Engineering/Asset heads	4	4	4	9	6	11	14	14
National delivery service	1	1	1	1	1	1	1	-
Group/central								
Pensions	16	16	15	1	-	-	-	-
Insurance	15	10	7	11	8	1	8	4
Redundancy/reorganisation costs	1	-	3	2	1	5	1	7
Staff incentives	3	5	5	1	1	-	(1)	1
Corporate costs capitalised	(3)	(3)	(5)	(3)	-	-	-	-
Maintenance/Opex reclassification	(2)	(3)	(5)	-	-	-	-	-
Wayleaves/West Coast feeder stations	1	1	1	-	-	-	-	-
Accommodation & Support recharges	-	-	-	-	(6)	(6)	(3)	-
Fleet vehicle recharges	-	-	-	-	-	-	(2)	(2)
ORR financial penalty for missed regulatory outputs	-	-	-	-	-	-	-	8
Other	5	3	3	5	6	3	1	-
Total controllable operating expenditure	102	95	96	104	93	93	86	98

Statement 7b: Scotland Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

Note:

- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison for the control period 4 data. These changes have resulted in a decrease in the cumulative staff incentives figures of £2m and a decrease in pension expense of £5m. These costs are now included within Maintenance.

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) The variance of a number of reporting unit's costs to FY09/10 (Finance, Commercial Property, Other Corporate Services) relates to a change in treatment. Previously accommodation and support charges were recovered from these functions but are now recovered centrally. This is reflected in the 'Accommodation & Support Recharges' line.
- (3) Human resources – until 2011/12 the Training category included costs relating to Westwood, Network Rail's central training facility. These costs are now included within Commercial property. In 2012/13 a number of staff transferred from Human Resources to Shared Services (included within the Other corporate services category) thus reducing costs in this area.
- (4) Finance - in the current year there was a transfer of costs from Finance to 'Route Services' as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service.
- (5) Contracts & procurement/ Strategic sourcing – in 2008/09 the activities of Contracts & procurement were expanded to include management of utilities costs for the company (before this, costs were largely borne by Maintenance). To reflect the increase in activities the function was re-branded Strategic sourcing. In 2012/13 responsibility for utilities management was transferred to Asset management resulting in costs of approximately £4m being switched that year. Consequently, the remaining Strategic sourcing activities were re-named Contracts & procurement.
- (6) Safety & sustainable development – until 2012/13 this was shown as Safety & compliance. The name was changed to reflect the additional activities undertaken by this department (including re-working the safety control framework) as part of Network Rail's continued commitment to improving the safety culture of the organisation.
- (7) Infrastructure Projects – cost of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. The net expenses in 2011/12 relate to re-organisation costs incurred associated with the move towards creating a new, commercially focussed, regionally based projects delivery business. From 2012/13, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower costs in Infrastructure Projects and higher costs in Group (as shown in the 'Accommodation & Support recharges line).

Statement 7b: Scotland Analysis of operating expenditure by activity continued

In £m 2013/14 prices unless stated otherwise

- (8) Route Services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. In the current year, the costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'

- (9) National Delivery Services – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.

- (10) Pensions – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by their function (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance (refer to Statement 8a).

- (11) Insurance – costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.

- (12) Redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies.

- (13) Staff incentives – the variance to control period 3 is due to a change in accounting treatment. In order to drive appropriate management behaviour a higher proportion of the costs of employing an individual are now borne directly by the function/budget holder where that individual works (previously these costs were recognised in Group). Therefore, an element of these costs from control period 3 are now included within Maintenance. Staff incentive costs are higher than the prior year as 2012/13 benefited from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.

- (14) Corporate Costs Capitalised – in the previous control period an element of central costs were capitalised for expenses relating to staff wholly connected with the delivery of capital projects. These costs are generally charged directly to projects in control period 4 as noted above.

Statement 7b: Scotland Analysis of operating expenditure by activity Continued

In £m 2013/14 prices unless stated otherwise

- (15) Maintenance/Opex reclassification – in the previous control period an adjustment was made to reflect the reclassification of costs between Maintenance and Controllable opex to mirror the funding arrangements in control period 3. No such adjustment is required in the current control period.
- (16) Wayleaves/ West Coast feeder stations – under the ACR 2003 allowances for West Coast feeder stations and Wayleaves activities were given within opex. Network Rail treated these items as capex in their Statutory financial statements and made an adjustment to opex in the Regulatory financial statements. There was no funding for such items in the PR08 and so there is no balance in control period 4.
- (17) Accommodation & Support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects which resulted in a reduction in gross Infrastructure Project costs.
- (18) ORR financial penalty for missed outputs – in May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1 per cent that it missed the regulatory punctuality target of 92 per cent for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, other external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, and asset failures all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £5m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. Under Network Rail's accounting policy for the disaggregation of central costs, Scotland's proportion of the financial penalty has been calculated on the basis of train miles.

Statement 7c: Scotland Insurance reconciliation

In £m 2013/14 prices unless stated otherwise

Risk	Market based insurance			Self insurance				Total		
	Underlying claims cost	Claims paid / outstanding	Market premiums	Underlying claims cost	Claims paid by the captive	Claims outstanding with the captive	Captive reinsurance premiums and expenses	Captive premiums and reimbursement arrangements	Other	Total cost
			A					B	C	D
Property , business interruption and public liability	14	14	1	10	-	7	-	4	-	5
Terrorism	-	-	1	-	-	-	1	1	-	2
Employer's liability	-	-	-	-	-	-	-	1	-	1
Stations & depots property damage, terrorism & public liability	-	-	-	-	-	-	-	1	-	1
Motor	-	-	-	-	-	-	-	-	-	-
Construction all risks	-	-	-	-	-	-	-	-	-	-
Other cover ⁽²⁾	-	-	-	-	-	-	-	-	-	-
Investment return	-	-	-	-	-	-	-	-	-	-
Total	14	14	2	10	-	7	1	7	-	9

Statement 7c: Scotland Insurance reconciliation continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) Total insurance cost: $A + B + C = D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR08 comparison has been provided by the ORR for this schedule.

Statement 7d: Scotland Cost of own work capitalised

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Gross costs	Own costs recovered ⁽²⁾	Net costs	Gross costs	Own costs recovered ⁽²⁾	Net costs
Controllable operating expenditure						
Human resources	6	-	6	33	-	33
Information management	9	(3)	6	50	(15)	35
Operations & customer services	53	(11)	42	245	(31)	214
Finance	2	-	2	15	(2)	13
Contracts & procurement	1	-	1	16	-	16
Planning & development	2	(1)	1	10	(5)	5
Safety & sustainable development	1	-	1	2	-	2
Other corporate services	6	(1)	5	23	(2)	21
Commercial property	7	(1)	6	33	(4)	29
Infrastructure Projects	32	(38)	(6)	172	(179)	(7)
Route asset management	6	(6)	-	10	(9)	1
Route Services	2	-	2	2	-	2
Asset management & Engineering/ Asset heads	18	(4)	14	82	(28)	54
National delivery service	1	(1)	-	10	(6)	4
Group/central	18	-	18	59	(6)	53
Total controllable operating expenditure	164	(66)	98	762	(287)	475

Note:

- (1) The actual 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.
- (2) Own costs recovered refers to gross operating costs transferred from a particular cost centre. This usually refers to costs which are capital in nature and so charged to renewals and enhancements projects but also includes operating costs re-charged to other parts of the business

Comments:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Operations & customer services – net costs are in line with the prior year. Recoveries have increased by £1m this year, reflecting additional capex works delivered by Operations & customer services staff, particularly with regard to possession management activities. There was a corresponding increase in gross costs to offset this.

Statement 7d: Scotland Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

- (3) Infrastructure Projects – most of the costs incurred by projects are capitalised and, therefore, there is usually minimal net operating costs within Infrastructure Projects. This year, corporate charges for accommodation and support made to Infrastructure Projects have decreased which has resulted in lower net costs in Infrastructure Projects) and higher costs in Group/ central. Gross costs are in line with the prior year.
- (4) Route services – as part of Network Rail's move to a devolved organisation, certain activities which were previously managed centrally have been moved into the local management structure. This is to improve control over the costs and outputs of these functions as operating routes can best decide the services they require. This is the first year that Route services has been disclosed as a separate function. The costs in Route services largely relate to responsibilities previously reported under 'Human Resources' and 'Finance'.
- (5) National Delivery Service – this department provides services for the rest of the company and, from, 2013/14, charges the other cost centres for these services. This re-charge mechanism aims to incentivize the correct behaviour throughout the business as well as improve the quality of the services that NDS provides. The price list of charges to the rest of the business is set at the start of the year (to give certainty to the rest of the business) so that NDS will recover all of their costs provided that activity and costs are in line with budget. In reality, this is unlikely so a small net gain/ loss is expected each year.
- (6) Group - gross and net costs are significantly higher than the previous year. This is due to:
 - a. £6m redundancy/reorganisation costs – these costs can vary during each year of the control period due to the timing of major corporate initiatives. The increase compared to the previous year is due to the rationalisation of management roles in the company to create an organisational suitable to meet the challenges set out by the Regulator for control period 5. In addition, there are also costs associated with the relocation of certain corporate functions to the National Centre in Milton Keynes to further reduce staff costs and generate operational efficiencies
 - b. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1 per cent that it missed the regulatory punctuality target of 92 per cent for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £5m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. Under Network Rail's accounting policy for the disaggregation of central costs, Scotland's proportion of the financial penalty has been calculated on the basis of train miles.
 - c. £2m staff incentive costs are higher than the prior year as the previous year benefitted from a release of accruals relating to 2011/12. The expected level of pay out accrued at the end of 2011/12 was calculated on the basis of achievement against defined criteria. After year end, before payments were made to staff, the expected award was reduced by Network Rail's Remuneration Committee using their discretionary powers.

Statement 7d: Scotland Cost of own work capitalised continued

In £m 2013/14 prices unless stated otherwise

- d. £3m accommodation & support recharges – recharges are made to capital projects to reflect office rental and other support costs directly associated with staff working on the delivery of these schemes. The credit for these recharges is recorded in Group. The decreased credit this year is a result of lower charges made to Infrastructure Projects resulting in a reduction in gross Infrastructure Project costs.

These additional costs have been partly offset by insurance savings. Costs shown in this statement were lower than the previous year due to the increased size and scope of incidents in the current year resulting in a higher proportion of costs being capital in nature (and hence contributing to the higher Renewals costs shown in Statement 9) in order to repair and replace damaged infrastructure.

Statement 8a (1): Scotland Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual ⁽³⁾	Cumulative Adjusted PR08	Difference
Core Maintenance ⁽¹⁾						
Track	40	44	4	223	238	15
Structures	4	4	-	19	21	2
Signalling	14	12	(2)	81	67	(14)
Telecoms	3	7	4	23	40	17
Electrification	7	5	(2)	24	29	5
Plant & machinery	2	1	(1)	13	8	(5)
Operational property	-	-	-	-	-	-
Other	-	4	4	9	20	11
Total	70	77	7	392	423	31
Non-Core Maintenance						
Indirect costs	9	19	10	48	103	55
Other costs	5	14	9	41	64	23
Total	14	33	19	89	167	78
Total maintenance expenditure	84	110	26	481	590	109

Notes:

- (1) These costs only include direct costs.
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Comparing the PR08 allowances to the actual costs by activity does not provide a meaningful comparison as they do not compare like-for-like data. Since the PR08 was finalised, Network Rail have adapted their accounting and cost allocation in order to provide more accurate unit cost information. For example, some of the costs included as overheads (in Non-core Maintenance in the above table) in the determination are now directly attributed to individual maintenance jobs (part of Core Maintenance in the above table) in order to reflect a true picture of the underlying costs of different activities to allow management to make more informed decisions. Therefore, it is more relevant to consider Maintenance costs in totality.
- (2) Overall, Maintenance costs were 8 per cent lower than the previous year as Network Rail continued the trend during the control period of delivering Maintenance efficiencies.
- (3) Average headcount increased by over 1 per cent compared to the previous year. However, the average staff cost per head decreased slightly as new employees were recruited more cheaply than the existing staff (such as the new apprentices). The extra resource available has also allowed for a reduction in overtime costs compared to the previous year. In addition, most of this extra resource was introduced to deliver capital works, which reduces the net Maintenance costs.

Statement 8a (1): Scotland Summary analysis of maintenance expenditure continued

In £m 2013/14 prices unless stated otherwise

- (4) The costs of non-core Maintenance decreased slightly compared to the previous year. This was mainly a result of National Delivery Services (NDS) off-charging their costs to the rest of the business to incentivize optimal decision making on cost and procurement judgements. These additional costs were recognised across the business, including extra Maintenance costs in other non-core Maintenance functions.
- (5) Once more, costs are lower than the PR08 as efficiency savings are being made at a faster rate than that assumed in the determination. This is illustrated in Statement 12 which sets out the maintenance efficiency for the year compared to the original ORR assumption in the determination.
- (6) Total control period costs were lower than assumed in the PR08 as total Maintenance efficiencies were higher than the Regulator assumed. In addition, the savings made were at a faster rate than the PR08 allowances expected allowing the savings embedded in earlier years to reap rewards across the control period. Efficiencies in the control period have been made through a combination of organisational restructuring (which has allowed for more flexible activity schedules and working practices), reducing overheads through rationalisation and amalgamation of responsibilities, improved procurement of resources and numerous small local initiatives which have combined to realise significant savings.

Statement 8a (2): Scotland Summary analysis of maintenance headcount by activity

	2010/11	2011/12	2012/13	2013/14
Core Maintenance				
Track	716	831	797	787
Structures	2	4	-	-
Signalling	376	355	330	322
Telecoms	65	27	60	58
Electrification	86	93	103	103
Plant & machinery	18	21	37	37
Operational property	29	41	37	34
Other	-	-	2	14
Total	1,292	1,372	1,366	1,355
Non-Core Maintenance				
Indirect headcount	281	165	119	150
Other headcount	-	-	-	-
Total	281	165	119	150
Total maintenance headcount	1,573	1,537	1,485	1,505

Notes:

- (1) The above data records the headcount for functions specifically employed to deliver Maintenance activities only. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by these functions. Therefore, the two sets of data are not comparable.
- (2) The above data includes full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Comment:

- (1) Average headcount has increased by around 1.3 per cent compared to the previous year. A large part of this is due to increased delivery of capital works by local maintenance teams. Whilst not all of these costs will be internal Network Rail costs it illustrates the additional outputs being delivered by the Maintenance teams. Local works delivery teams allow for a more agile delivery of capital works, especially when the works are in response to changing conditions that allow for the provision of maintenance and capital activities at the same time. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.

Statement 8b (1): Scotland Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU)

In £m 2013/14 prices unless stated otherwise

	2009/10 ⁽³⁾	2010/11	2011/12	2012/13	2013/14	Total
Edinburgh	24	23	21	18	19	105
Glasgow	17	15	14	13	13	72
Motherwell	27	25	23	21	22	118
Perth	14	13	12	12	13	64
Total MDU	82	76	70	64	67	359
Route HQ	1	2	2	8	6	19
Other HQ	12	11	3	3	2	31
Total HQ	13	13	5	11	8	50
Centrally managed						
Structures examinations	3	3	4	4	4	18
Major items of maintenance plant	1	2	1	2	-	6
Other	13	11	9	10	5	48
Total maintenance expenditure	112	105	89	91	84	481

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) The actual 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) The costs incurred at each depot can vary significantly depending on the scope of activities undertaken at each location. This can vary based on the condition of the network in that area, the type of railway infrastructure (e.g. whether it includes electrification assets), the size of the region covered and local labour market conditions. Therefore, comparing the costs of one depot to another does not provide a meaningful comparison. Instead, route management monitor the costs of the depots compared to internal targets.
- (2) Costs incurred at the depot level decreased by approximately 1 per cent compared to the prior year. This was a lower rate of saving than across the Maintenance cost categories. Savings were lower as efficiencies made were largely negated by additional costs being classified within the depot part of the organisation. By allocating a higher proportion of costs to the areas responsible for incurring them it incentivises optimal decision-making by management. Statement 8b(2) shows a decrease in staff numbers at depots. However, this is mostly due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact.
- (3) Route HQ costs have decreased slightly compared to the previous year as the Maintenance organisation delivers efficiencies. Statement 8b(2) shows that headcount has increased compared to the previous year. As noted above, this is largely due to capital works delivery teams moving to HQ cost centres. As these teams are responsible for delivering capital projects there is minimal net Maintenance cost impact.

Statement 8b (1): Scotland Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) continued

In £m 2013/14 prices unless stated otherwise

- (4) HQ costs decreased significantly compared to the previous year. This is mainly a result of increased off-charging of HQ activity to the depots to better reflect the underlying costs of operations. This should enable improved management judgements as the costs are more reflective of the economic reality of decisions made.
- (5) Centrally managed costs have decreased in the previous year mainly as a result of National Delivery Services (NDS) recharging their costs to the rest of the business (including other cost centres within Maintenance) to create a more direct link between where activity is occurring and where the corresponding cost is recognised.

Statement 8b (2): Scotland Analysis of maintenance headcount by MDU

	2009/10	2010/11	2011/12	2012/13	2013/14
Edinburgh	439	404	369	350	343
Glasgow	345	314	288	281	280
Motherwell	526	491	493	475	476
Perth	267	247	239	244	234
Total MDU	1,577	1,456	1,389	1,350	1,333
Route HQ	10	10	74	70	112
Other HQ	120	107	74	65	60
Total maintenance headcount	1,707	1,573	1,537	1,485	1,505

Notes:

- (1) The above data includes only full time equivalent permanent staff.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Comment:

- (1) Average headcount has increased by around 1.3 per cent compared to the previous year. A large part of this is due to increased delivery of capital works by local maintenance teams. Whilst not all of these costs will be internal Network Rail costs it illustrates the additional outputs being delivered by the Maintenance teams. Local works delivery teams allow for a more agile delivery of capital works, especially when the works are in response to changing conditions that allow for the provision of maintenance and capital activities at the same time. Changes between individual categories are largely due to organisational changes which affect where staff responsible for certain activities are positioned in Network Rail's organisational structure.
- (2) Depot headcount decreased by nearly 2 per cent mostly as a result of efficiencies and re-organisations, with more of the staff delivering capital projects moving under the management of Route HQ and Other HQ.
- (3) Increases in Route HQ staff numbers reflect some of the decrease in depot-based headcount and also some additional resources introduced to the company to assist with the delivery of the capital works programme.

Statement 9a: Scotland Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Track	82	82	-	362	422	60
Structures	111	65	(46)	429	421	(8)
Signalling	46	33	(13)	164	174	10
Telecoms	22	10	(12)	161	156	(5)
Electrification	9	8	(1)	20	57	37
Plant and machinery	13	5	(8)	59	43	(16)
Operational property	37	26	(11)	231	273	42
Other renewals						
Information management	10	8	(2)	48	44	(4)
Corporate offices	1	1	-	15	5	(10)
Discretionary investment	1	-	(1)	3	7	4
ORBIS	5	-	(5)	9	-	(9)
Other	-	2	2	7	18	11
Total	17	11	(6)	82	74	(8)
Total renewals expenditure	337	240	(97)	1,508	1,620	112

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £113m underspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (3) Track – expenditure in the year was in line with the determination and £60m lower for the control period. This arose from a mixture of volume and unit cost savings. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Network Rail delivered volumes over and above those specified in the Delivery Plan update 2010 as it accelerated both plain line and switches & crossings activity from future control periods into control period 4. Plain line unit costs were lower than both the Regulator's assumption derived from the PR08 and for Great Britain as a whole reflecting the different nature of the assets in Scotland. High output machinery was not used in Scotland for track renewals but was used in England & Wales. This type of machinery is beneficial in reducing the time of possessions but expensive, increasing the unit costs per project. In addition, the severe weather experienced in the past two years which increased unit costs was more prevalent in England & Wales than Scotland reducing the number of jobs that were cancelled. Switches & crossings unit costs were higher than the Regulator's assumption derived from the PR08 but lower than the unit rates for England & Wales. The Regulator's assumption for unit rates in Scotland appears to be over-optimistic in hindsight.
- (4) Structures – expenditure in the year was significantly higher than the PR08 but was in line with Regulator's assumption for the control period. The variance in the year was due to a re-profiling of activity within the control period between the Regulator's expectation and Network Rail's own plan. Structures expenditure was approximately £40m higher than the prior year mainly due to increased volumes (which contributed £37m) as work was re-phased until later in the control period.
- (5) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up, expenditure for the control period was lower than the PR08 allowance due to financial outperformance generated by Network Rail (refer to Statement 5). Expenditure was 10 per cent lower than the previous year due to the phasing of activity in the control period.
- (6) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was £5m higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was £4m higher than the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (7) Electrification – expenditure in the current year is in line with the PR08 but significantly lower for the control period. This is mainly due to significant financial outperformance (refer to Statement 5) generated by Network Rail. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (8) Plant & machinery – expenditure for the year and the control period was higher than the PR08. During the control period Network Rail invested over £10m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. There was also some financial underperformance in this category of assets (refer to Statement 5) which contributed to the overspend. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is in line with the previous year as lower expenditure on fleet purchases (£4m) has been replaced by expenditure on a number of smaller projects.
- (9) Operational property – expenditure in the year was higher than the Regulator's determination but lower for the control period. This was due to differences between the Regulator's assumptions and Network Rail's delivery. The lower expenditure for the control period was due to financial outperformance (refer to Statement 5) as Network Rail delivered the outputs required for the control period at a lower cost than the Regulator expected.
- (10) Other – the major differences in this category are set out below:
 - a. IT – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 11 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is higher than the PR08 which assumed that 9.5 per cent of the IT costs would be incurred in Scotland. As IT is treated as a national programme costs are allocated to Scotland on the basis of train miles (10 per cent) which causes the variance.
 - b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood.
 - c. ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.
 - d. Other – expenditure in the control period is lower than the PR08 mostly due to financial outperformance (refer to Statement 5). In addition, it includes over £5m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods.

Statement 9b: Scotland Detailed analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Track						
Plain line						
Conventional	34			203		
High output	-			-		
Reactive	-			6		
Refurbishment	6			20		
Switches and crossings						
S&C delivered	18			92		
Refurbishment	11			11		
Drainage	5			13		
Fencing	4			8		
Other off-track	4			9		
National gauging	-			-		
Engineering improvement schemes	-			-		
Total	82	82	-	362	422	60
Structures						
Underbridges	38	22	(16)	138	119	(19)
Overbridges	1	8	7	3	47	44
Bridgeguard 3	4	-	(4)	6	-	(6)
Earthworks	39	20	(19)	115	111	(4)
Major structures	8	8	-	84	95	11
Tunnels	1	1	-	5	11	6
Culverts	1	2	1	5	11	6
Footbridges	-	-	-	1	1	-
Coast/estuary defences	-	1	1	2	5	3
Retaining walls	-	-	-	-	3	3
Other	19	3	(16)	70	18	(52)
Total	111	65	(46)	429	421	(8)
Signalling						
Conventional resignalling	19	11	(8)	73	62	(11)
ERTMS resignalling	9	8	(1)	10	16	6
Level crossings	1	-	(1)	6	3	(3)
Minor works/ life extensions	11	11	-	51	74	23
Control centres	-	-	-	14		(14)
Modular signalling	-	-	-	-		-
Other	6	3	(3)	10	19	9
Total	46	33	(13)	164	174	10
Telecoms						
FTN/GSM-R						
Infrastructure	7			118		
Cab mobile	2			8		
Freight-only branch line	-			1		
Station information and surveillance						
CIS	-			1		
Public address	3			14		
Other	-			2		
Other operational						
Concentrators	1			3		
Driver-only operation CCTV	-			-		
Cable and cable routes	3			5		
Other	6			9		
Total	22	10	(12)	161	156	(5)

Statement 9b: Scotland Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

	Actual	2013/14 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
Electrification						
Overhead line						
GE project	-			-		
Rewires	-			-		
Campaign changes	-			4		
Structures	-			-		
Other	-			1		
Conductor rail	-			-		
AC distribution	-	2	2	1	18	17
DC distribution						
HV switchgear	-			-		
HV cables	-			-		
Transformer rectifiers	-			-		
LV switchgear	-			-		
LV cables (DC)	-			-		
Other	-			-		
SCADA	1	1	-	1	7	6
Other	8			13		
Total	9	8	(1)	20	57	37
Plant and machinery						
Fixed Plant						
Point heaters	-	1	1	-	4	4
Signalling power distribution	5	1	(4)	12	3	(9)
Signalling supply points	1	1	-	1	3	2
Other fixed plant	1	1	-	9	4	(5)
High output plant	2	-	(2)	5	13	8
Intelligent infrastructure	-	-	-	1	4	3
Fleet and machinery (NDS)	1	-	(1)	6	4	(2)
Rail fleet	-	-	-	-	1	1
Mobile plant and other	3	1	(2)	25	7	(18)
Total	13	5	(8)	59	43	(16)
Operational property						
Managed stations	18	6	(12)	120	164	44
Franchised stations	11	15	4	80	85	5
Light maintenance depots	3	2	(1)	13	11	(2)
Depot plant	2	-	(2)	3	-	(3)
Lineside buildings	2	-	(2)	7	-	(7)
MDU buildings	1	2	1	7	8	1
NDS depots	-	1	1	1	5	4
Total	37	26	(11)	231	273	42
Other renewals						
IT	10	8	(2)	48	44	(4)
Corporate offices	1	1	-	15	5	(10)
WCML engineering access	1	-	(1)	3	7	4
WC rollover from CP3	-	-	-	-	-	-
ORBIS	5	-	(5)	9	-	(9)
Other renewals	-	2	2	7	18	11
Total	17	11	(6)	82	74	(8)
Total renewals expenditure	337	240	(97)	1,508	1,620	112

Statement 9b Scotland Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

Note:

- (1) The information in this statement is disclosed using classifications in the Delivery Plan update 2012. Comparative PR08 information is not available for all categories. Where no PR08 data is available this column, and the corresponding Difference column, have been left blank. Therefore, total for the PR08 and Difference columns may not cast.

Comments:

- (1) The PR08 column has been adjusted by the Regulator to reflect agreed alterations to the baseline (such as those arising from the change control process and to reflect deferral of activity to control period 5 that is included in the PR13 determination). Therefore, the amounts included in this column are different to the PR08 determination published by the ORR in October 2008.
- (2) In many areas the PR08 assumed a different trend of expenditure to that published by Network Rail in its various Delivery Plan updates. Underspend or overspend shown in the above table for 2013/14 is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan. In addition, Network Rail has delivered additional outputs and projects that were not included in the determination for control period 4. Therefore, the £113m underspend for the control period compared to the determination (as set out in the above table) does not represent a like-for-like comparison between funding and outputs delivered.
- (3) Track – expenditure in the year was in line with the determination and £60m lower for the control period. This arose from a mixture of volume and unit cost savings. Following the publication of the Regulator's control period 4 determination (published 2008) Network Rail introduced new asset policies which outlined the most appropriate strategy for when to replace parts of the track network. This involved targeting activity on those parts of the network with a higher volume of traffic and so greater wear and tear, rather than replacing track when it reached a certain age. This enabled Network Rail to reduce the amount of renewals activities (as set out in the Delivery Plan update 2010) whilst still maintaining the asset in a suitable condition. Network Rail delivered volumes over and above those specified in the Delivery Plan update 2010 as it accelerated both plain line and switches & crossings activity from future control periods into control period 4. Plain line unit costs were lower than both the Regulator's assumption derived from the PR08 and for Great Britain as a whole reflecting the different nature of the assets in Scotland. High output machinery was not used in Scotland for track renewals but was used in England & Wales. This type of machinery is beneficial in reducing the time of possessions but expensive, increasing the unit costs per project. In addition, the severe weather experienced in the past two years which increased unit costs was more prevalent in England & Wales than Scotland reducing the number of jobs that were cancelled. Switches & crossings unit costs were higher than the Regulator's assumption derived from the PR08 but lower than the unit rates for England & Wales. The Regulator's assumption for unit rates in Scotland appears to be over-optimistic in hindsight.
- (4) Structures – expenditure in the year was significantly higher than the PR08 but was in line with Regulator's assumption for the control period. The variance in the year was due to a re-profiling of activity within the control period between the Regulator's expectation and Network Rail's own plan. Structures expenditure was approximately £40m higher than the prior year mainly due to increased volumes (which contributed £37m) as work was re-phased until later in the control period.

Statement 9b: Scotland Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

- (5) Signalling – expenditure in the year was higher than the PR08 due to a different assumption about the timing of when work would be completed in the PR08 compared to Network Rail's own plan. Despite this catch up, expenditure for the control period was lower than the PR08 allowance due to financial outperformance generated by Network Rail (refer to Statement 5). Expenditure was 10 per cent lower than the previous year due to the phasing of activity in the control period.
- (6) Telecoms – expenditure in the year was higher than the PR08 due to differences in the profile of activity assumed by the Regulator compared to the actual timing of works. The Regulator assumed higher costs at the start of the control period with decreases as the control period progressed, notably to reflect the expected delivery pattern of the FTN/ GSMR programme. However, whilst telecoms costs have decreased during the control period the rate of decrease has not been as fast as the ORR expected, largely due to delays in completing the FTN/ GSMR projects. Expenditure in the control period was £5m higher than the Regulator assumed. This overspend was mostly due to Network Rail failing to deliver the level of efficiencies the ORR expected on the FTN/ GSMR programme. The regulator has agreed that some of the additional scope of the FTN project can be treated as efficient overspend and so can be added to the RAB at a reduced value (75%). This mostly relates to the use of more, smaller masts rather than fewer, larger masts following feedback from the railway's stakeholders. These higher costs were partly offset by a deferral of some of the FTN/ GSMR works into control period 5. Expenditure was in £4m higher than the previous year, which was the net result of lower FTN/ GSMR expenditure (as major milestones of the programme are achieved) offset by additional delivery of projects on the wider Telecoms estate.
- (7) Electrification – expenditure in the current year is in line with the PR08 but significantly lower for the control period. This is mainly due to significant financial outperformance (refer to Statement 5) generated by Network Rail. As noted in the previous year's Regulatory Financial Statements investment was expected to be noticeably higher in the current year compared to 2012/13 as a number of projects were scheduled for completion in 2013/14.
- (8) Plant & machinery – expenditure for the year and the control period was higher than the PR08. During the control period Network Rail invested over £10m to purchase fleet vehicles, which were not included in the PR08 allowance. Vehicles were previously leased from third parties so these purchases generated opex savings in the control period and into control period 5, resulting in lower government grants required in future years. There was also some financial underperformance in this category of assets (refer to Statement 5) which contributed to the overspend. The higher expenditure in the current year compared to the PR08 largely relates to timing differences during the control period. The Regulator assumed a higher proportion of expenditure at the start of the control period compared to the actual profile of delivery. Plant & machinery spend in the current year is in line with the previous year as lower expenditure on fleet purchases (£4m) has been replaced by expenditure on a number of smaller projects.
- (9) Operational property – expenditure in the year was higher than the Regulator's determination but lower for the control period. This was due to differences between the Regulator's assumptions and Network Rail's delivery. The lower expenditure for the control period was due to financial outperformance (refer to Statement 5) as Network Rail delivered the outputs required for the control period at a lower cost than the Regulator expected.

Statement 9b: Scotland Detailed analysis of renewals expenditure continued

In £m 2013/14 prices unless stated otherwise

(10)Other – the major differences in this category are set out below:

- a. IT – expenditure in the year is higher than the PR08 largely due to different assumptions as to when projects were to be delivered. This is also shown by the 11 per cent increase in expenditure in 2013/14 compared to the prior year. Expenditure for the control period is higher than the PR08 which assumed that 9.5 per cent of the IT costs would be incurred in Scotland. As IT is treated as a national programme costs are allocated to Scotland on the basis of train miles (10 per cent) which causes the variance.
- b. Corporate offices includes expenditure on Network Rail's new National Centre in Milton Keynes which is designed to house a number of functions to enable cost savings while also increasing organisational effectiveness. Funding for this project was not included in the PR08 which accounts for most of the overspend compared to the determination in the above table. In addition, there were a number of other schemes delivered to provide Network Rail with the corporate office estate required for control period 5, including investment in modernising the national training centre at Westwood.
- c. ORBIS is the programme to improve asset management information, which will enable efficiency savings in control period 5 and beyond. Funding for this scheme was not included in the PR08 but allowances have been included in the Regulator's PR13 settlement for control period 5.
- d. Other – expenditure in the control period is lower than the PR08 mostly due to financial outperformance (refer to Statement 5). In addition, it includes over £5m invested in schemes not included in the determination, but which will facilitate the delivery of outputs in future control periods.

Statement 10: Scotland Other Information

In £m 2013/14 prices unless stated otherwise

	2013/14			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element						
Schedule 4						
Income	-					
Cost	(8)					
Net cost	(8)	(8)	-			
Schedule 8						
Net amount payable under NR regime	(1)					
Net amount payable under TOC regime	-					
Net cost	(1)	-	(1)			
B) Net Impact of Schedule 4 & 8						
Schedule 4						
Access Charge Supplement Income	10	8	2	55	54	1
Cost	(8)	(8)	-	(40)	(54)	14
Net income	2	-	2	15	-	15
Schedule 8						
Access Charge Supplement Income	-	-	-	-	-	-
Cost	(1)	-	(1)	(13)	-	(13)
Net cost	(1)	-	(1)	(13)	-	(13)
C) Opex memorandum account						
Opening balance						
Volume incentive	12					
Proposed amounts to be included in the CP5 expenditure allowance	(6)					
Total logged up items - opening balance	6					
In year						
Volume incentive	1					
Proposed amounts to be included in the CP5 expenditure allowance	6					
Total logged up items - in year movements	7					
Closing balance						
Volume incentive	13					
Proposed amounts to be included in the CP5 expenditure allowance	-					
Total logged up items - cumulative	13					

Statement 10: Scotland Other Information continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (delays and cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost 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 revenue. 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 a benchmark.
- (4) Schedule 8 performance regime provides benchmarks against which the performance of train operators and Network Rail are measured. Table A) above sets out the achievement against these benchmarks by both Network Rail and the train operators separately to offer an insight into what contributed to Network Rail's Schedule 8 income/ cost in the year.
- (5) No detailed PR08 numbers have been provided by the ORR for Table A).
- (6) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP in line with the requirements of the Regulatory Accounting Guidelines. The PR08 did not take into account the impact of the new weekend discounts offered to the Train Operating Companies when calculating expected capacity charges income. ORR has indicated that Network Rail will be funded for this shortfall in control period 5 and so this is also included in the Opex memorandum account.
- (7) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Amounts earned under the volume incentive are included in the Opex memorandum.
- (8) Amounts in the Opex memorandum at the end of the control period are returned to Network Rail through additional income payments in control period 5, as set out in the Regulator's PR13 determination.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were in line with the PR08 in the year and favourable for the control period as a whole largely due to better planning of possessions. The regulatory regime incentivises Network Rail to plan possessions early by offering discounts for early notification of disruption to the TOCs. Schedule 4 allowances in the determination can be allocated accurately between different activities (mostly for different renewals categories (track, electrification, signalling, electrification and structures) but also for maintenance and emergency timetables). There is minimal net impact on Schedule 4 costs arising from the re-profiling of activity between control period 4 and control period 5.

Statement 10: Scotland Other Information continued

In £m 2013/14 prices unless stated otherwise

- (2) Schedule 8 – net costs in line with the previous year and the determination. The PR08 assumed that overall Network Rail would achieve the performance targets in the control period and so that no net payment would be made. However, during the control period delay minutes have been higher than the Regulator assumed and train punctuality rates are lower than the ORR's targets. A number of factors have contributed to Network Rail missing train performance targets in the control period, including extraneous factors such as extreme weather and cable theft, as well as asset failures and increased traffic on the network. The control period witnessed some severe weather events which hampered performance. In addition, train performance in the control period has also been influenced by higher levels of cable theft, network trespass and fatalities than planned. Cable theft has contributed nearly 25,000 delay minutes in the control period resulting in costs of £1m. The insipid impact of cable theft was more pronounced in the earlier years of the control period. Recognising the adverse impact on performance, Network Rail undertook a number of initiatives to address this issue, such as lobbying government for changes in the law (resulting the Scrap Metal Dealers Act 2013), creating a specialist task force in conjunction with British Transport Police and the introduction of new cables which are easier to identify and harder to steal. Consequently, delay minutes attributable to cable theft declined in the final two years of the control period. Increased traffic on the network also contributed to the adverse Schedule 8 costs in the period. The higher Schedule 8 costs are also partly driven by changes in Network Rail's insurance arrangements. At the time of the determination, Network Rail paid higher insurance premiums in order to secure a lower excess that had to be borne by Network Rail for each individual claim. Network Rail re-structured its insurance arrangements meaning that it paid lower annual premiums but was exposed to higher excess rates. Therefore, the savings made in insurance costs compared to the Regulator's determination in the control period (refer to Statement 7a) have been partly offset by higher Schedule 8 costs. The additional Schedule 8 costs incurred during the control period are partly offset by additional income that Network Rail has earned through the volume incentive (refer to Statement 13) and capacity charges (refer to Statement 6a, although the PR08 allowances for capacity charges are mis-stated as noted above). In addition, there have also been a number of asset failures which have contributed to the adverse delay minutes. As well as the costs Network Rail have incurred through the Schedule 8 compensation mechanism of £13m for the control period, these delays have also resulted in the ORR levying a financial penalty of £5m for missed regulatory outputs and Network Rail committing to invest a further £3m to improve train performance and the passenger experience (refer to Statement 7a), making the total cost of missing train performance targets £21m adverse to the determination.

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

There is no Statement 11: Analysis of Network Rail's charges to Network Rail (High Speed) Limited for work on HS1 for Scotland as all High Speed 1 activity relates to England & Wales only

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2013/14 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2013/14				
Efficiency (£m)	(9)	8	70	69
Efficiency (%)	(11.0)%	9.1%	21.0%	12.7%
NR trajectory (£m)	(1)	2	27	28
NR trajectory (%)	(1.7)%	2.4%	7.7%	5.2%
PR08 (£m)	3	5	6	14
PR08 (%)	4.0%	4.5%	5.5%	5.0%
Cumulative				
Efficiency (£m)	0	30	124	154
Efficiency (%)	0.0%	26.4%	36.1%	27.8%
NR trajectory (£m)	4	26	104	134
NR trajectory (%)	4.0%	21.9%	24.9%	21.1%
PR08 (£m)	14	24	75	113
PR08 (%)	16.4%	18.0%	23.8%	20.9%

Comments:

- (1) The Controllable Opex position for the current year in the above table includes a provision for the long distance train performance financial penalty levied by the ORR and additional re-organisation costs.
- (2) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (3) The REEM indicates the level of efficiency made in comparison to the control period 3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in control period 4 compared to control period 3.
- (4) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of control period 4.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be around renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life asset cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (control period 3 exit point) as set out in the below table:

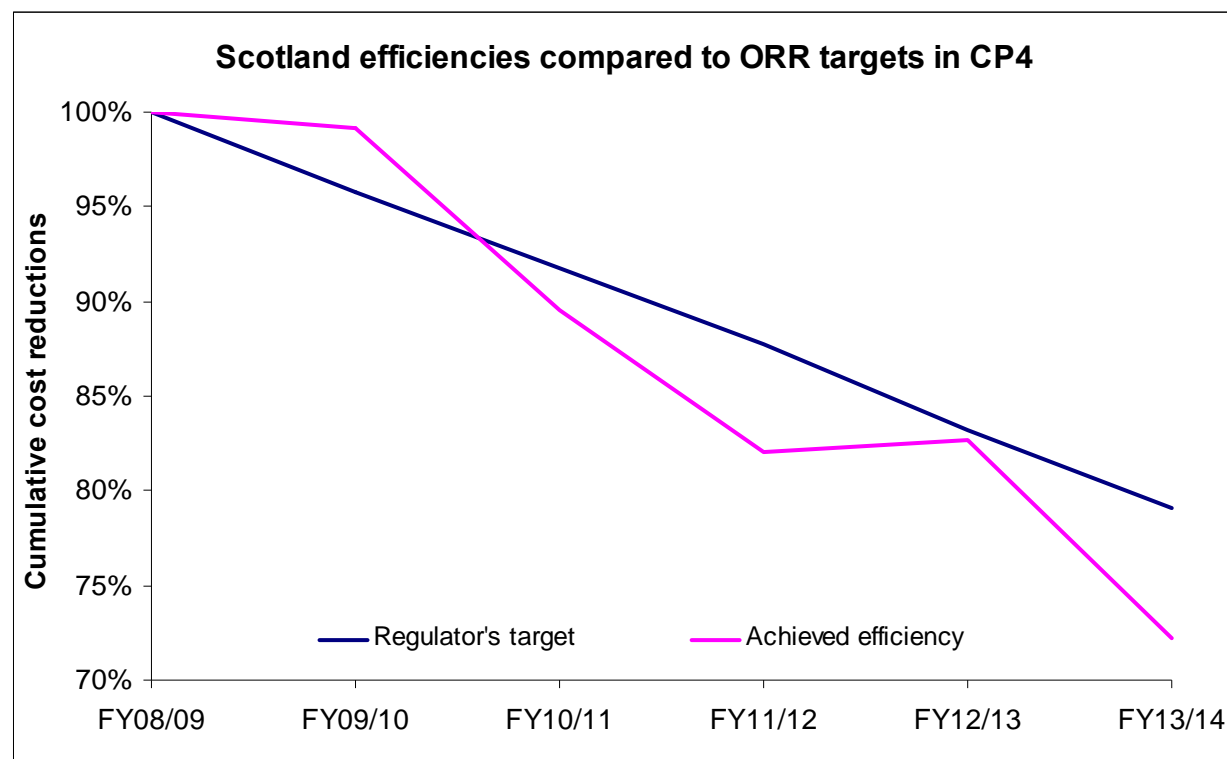
Year	In year inflation	Cumulative inflation from 2008/09
2009/10	0.30%	0.30%
2010/11	4.71%	5.02%
2011/12	5.16%	10.44%
2012/13	2.98%	13.73%
2013/14	2.65%	16.74%

- (7) Overall, efficiencies for the control period are 27.8 cent. This is a significant improvement on the previous year, which reported efficiencies of 17.3 per cent for the control period to date, and exceeds the ORR efficiency target and Network Rail's own efficiency trajectory. The increase in efficiencies in 2013/14 compared to the previous year is mainly caused by additional Renewals and Maintenance savings partly offset by additional Opex costs arising from one-offs (the ORR financial penalty for missed long distance train performance targets, dilapidation provisions and restructuring costs).

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (8) Whilst efficiencies in the final year of the control period are significantly ahead of the Regulator's expectation, this has not been the case throughout the entire control period. The below shows how the reported efficiencies have compared to the ORR's targets:



Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- (9) Controllable opex – controllable opex efficiencies in the control period were significantly negative, suggesting the costs of running the network in Scotland has increased compared with the 2008/09 baseline. The 2013/14 REEM was adversely impacted by some notable one-off costs which distort the underlying picture of efficiency savings. The current year includes a financial penalty imposed by the ORR for missed train performance on long distance services. In May 2012 ORR announced that it would penalise Network Rail £1.5m for every 0.1 per cent that it missed the regulatory punctuality target of 92 per cent for long distance services in 2013/14. 2013 was the wettest year in England & Wales for 250 years which was followed up by January being the wettest winter month in almost 250 years in England and in February the network experienced significant flooding and storm damage in the Western route. For the December 2013-February 2014 period parts of southern England had 83 per cent more rainfall than the average. Clearly, the impact of these extreme weather events on the network would have an adverse impact on Network Rail's ability to achieve ORR's punctuality targets. In addition, over external events such as cable theft, network trespass and higher than expected train delays caused by operator, rather than Network Rail, failure all contributed to the missed punctuality target. On 7 July 2014 the ORR announced a total financial penalty of £5m to reflect factors outside on Network Rail's control. Although the financial penalty was less than the provision made at year end this difference will be re-invested in the network to improve performance and the passenger experience and remains in the financial results for 2013/14. In addition, the current year includes a significant amount for commercial claims regarding properties and provisions for restructuring as the company is re-organised into an appropriate configuration to help deliver the cost savings required by the industry. Without these notable one-off items the Opex efficiency for the control period would be 14.0 per cent which, whilst still below the Regulator's assumption and Network Rail's own trajectory does reflect the underlying savings that have been made during the control period. As set out in the Delivery Plan 2009, Network Rail did not plan to deliver the Regulator's target efficiencies of 16.4 per cent for the control period (with Maintenance delivering the compensating savings). Staff costs (notably signaller staff costs) are a large component of Opex costs. Consequently, the main way Network Rail can reduce costs would be to reduce headcount. However, without the required infrastructure in place, it is not possible to make large scale headcount reductions to signalling sites around the country without a disastrous impact upon safety and performance. Network Rail's Strategic Business Plan 2007 noted that it would only be possible to reduce staff headcount marginally over the control period, which has proven to be correct. Network Rail's recently published Strategic Business Plan for control period 5 sets out how efficiencies will be made under a National Operating Strategy to reduce the cost base going forwards. However, initiating such wide ranging plans takes time. Also, additional expenditure on safety initiatives has introduced extra expense into the day-to-day costs of the company.
- (10) Maintenance – efficiencies for the control period were greater than the targets in the Regulator's determination and in Network Rail's own trajectory, continuing the trend witnessed across the control period. Cost reductions have been largely achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. The reorganisation allowed for a significant decrease in headcount as well as implementation of standard terms & conditions and working practices which enabled better roster planning and management. Also, by better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. Finally, better procurement processing, including negotiating supplier discounts for prompt payment, have helped drive down expenses.

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

(11) Renewals – efficiencies achieved in the control period were higher than both the ORR's assumptions and Network Rail's own trajectory. Renewals efficiencies by category are discussed in more detail below:

- a. Track – during control period 4, improved asset management policies have allowed savings to be made through reducing volumes. As part of the revised Track Asset Policy developed in 2009/10 (and endorsed by the Regulator) renewals activity would prioritise works on the more critical route sections of the network based on condition rather than just replacing track based on age, thus extending the life of quieter parts of the network. This has resulted in volume efficiencies of 14 per cent for plain line track and 21 per cent for switches & crossings for the control period. The more critical route sections that the new asset policy focussed on were, by their nature, the more expensive areas meaning that, ceteris paribus, unit costs would increase compared to the 2008/09 base line rate. Plain line unit cost savings of 8 per cent and Switches & Crossings savings of 28 per cent have been achieved as Network Rail has been able to deliver the portfolio of renewal projects in Scotland at a lower rate than the baseline. Non-volume efficiencies were lower than the Regulator planned due to additional fencing and drainage works and compensation payments made to contractors as Network Rail negotiates new terms for the forthcoming control period.
- b. Signalling – although in the final year of the control period signalling expenditure was 10 per cent higher than the pre-efficient baseline, efficiencies were recognised during years one to four of the control period. Total savings over the control period compared to the pre-efficient baseline was approximately £40m. Cost savings have been achieved through unit cost savings generated from delivering more work in-house, with Maintenance staff being particularly well suited to delivering minor works flexibility and relatively cheaply. Improved workbank planning and project management, reducing possession and subcontractor costs as well as shortening the time taken on site and the use of new technologies (such as Solid State Interlocking) have all contributed to cost savings. Enhanced layout design of signalling systems has also helped reduce the volumes delivered without impacting upon the sustainability of the asset. Efficiencies were adversely impacted by increases in non-volume costs as expected costs for minor projects for the control period as a whole have increased compared to the Regulator's determination.
- c. Operational property – savings in the control period have been achieved through improved workbank planning (leading to reduced late changes, abortive costs and premiums for late notice), more design work being completed in-house (reducing costs and improving flexibility), more competitive tendering (as contractors can be scheduled to work significantly in advance) and a better understanding of the cost base of projects. Improved contract negotiation has also allowed unit cost savings relative to RPI. In addition, use of standard designs concentrating on functionality has also reduced costs.
- d. Electrification – savings made in volumes due to an improved understanding of asset condition. Asset policy has also been amended to target renewals on those assets that require replacement based on their condition rather than their age. Also, completing more design work in-house (instead of using more expensive external contractors), improved work packaging (to reduce mobilisation costs), organising extended possessions (to enable more work to be completed at one time) and early engagement with delivery partners have also enabled cost reductions in this control period.
- e. Telecoms (non-FTN) – savings in the control period have arisen from savings across a number of small projects delivered during the control period. Common drivers of efficiency across a number of projects include: better contract negotiation to secure lower prices and better delivery solutions, replacing components/ maintaining assets such as Large concentrators on a timely basis (with no adverse impact on whole-life costs) and better understanding of asset condition to determine optimal timing of replacement.

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

In £m 2013/14 prices unless stated otherwise

- f. Telecoms (FTN) – expenditure is higher than the pre-efficient baseline for this project and this gap has increased in 2013/14. This programme was always expected to spend more than the post-efficient funding available due to complications in delivering the solution compared to the original plan. Increases in the scope of the project resulted in additional costs. Also, extra asset testing, trespass and vandalism measures increased the costs of delivery compared to expectations.
- g. Plant & machinery - efficiencies were delivered across a number of small projects. Savings were made through combining contracts to extract best value from suppliers, utilising cheaper in-house resource to deliver projects and improved procurement processes through contractor and materials frameworks.
- h. IM - efficiencies were in line with the Regulator's targets for the control period as Network Rail delivered the required outputs within the funding levels specified by the Regulator
- i. Corporate offices – no savings were made compared to the pre-efficient allowance included in the Regulator's determination as Network Rail constructed extra buildings. These projects have solid business cases which will result in Network Rail saving money in the future (and so reducing the government subsidy required) but the original funding for these items was not included in the PR08 baselines.

Statement 13: Scotland Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	13	27.55 m	23.60 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£320 m	£233 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.37 m	2.69 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,651 m	2,815 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	13					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in control period 4 which assumed an increase in passenger demand each year. However, this demand growth could be higher than envisaged in the PR08. Therefore the regulatory settlement for control period 4 seeks to incentivise Network Rail to meet these unanticipated increases in demand largely through non-capex intensive solutions. The above table sets out the growth targets Network Rail has to achieve to trigger the volume incentives. Network Rail has been able to respond to the additional passenger demand by increasing the number of passenger train miles by nearly 17 per cent (or 3.95 million) compared to 2008/09 (the baseline year). This resulted in Network Rail earning £13m under the volume incentive mechanism. This outperformance has not been included in the overall financial assessment of how Network Rail has performed during the control period (refer to Statement 5). As set out in the Regulator's control period 5 PR13 determination the amounts earned under the volume incentive are included in the Opex memorandum account (refer to Statement 10) and are received by Network Rail during control period 5.

Statement 14: Scotland Maintenance unit costs

In £m 2013/14 prices unless stated otherwise

A) Maintenance expenditure 2013/14

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	5,463	334	1,825	-	1,825
MNT006	Manual Wet Bed Removal	Bay	103	1,619	167	-	167
MNT010	Replacement of S&C Bearers	Each	457	459	210	-	210
MNT011	S&C Arc Weld Repair	Number	560	1,142	640	-	640
MNT013	Level 1 Patrolling Track Inspection	Mile	66	73,495	4,851	-	4,851
MNT015	Weld Repair of Defective Rail	Number	533	658	351	-	351
MNT016	Installation of Pre-Fabricated IRJs	Joint	1,932	110	213	-	213
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	105,816	423	-	423
MNT026	Replenishment of Ballast Train	Tonne	21	18,346	385	-	385
MNT027	Maintenance of Rail Lubricators	Lubricator	119	9,530	1,134	-	1,134
MNT029	Replacement of Pads & Insulators	Sleeper	14	54,826	768	-	768
MNT030	Maintenance of Longitudinal Timber	Timber	130	405	53	-	53
MNT032	CWR – Stressing	Yard	9	31,889	287	-	287
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	397	179	71	-	71
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	534	2,194	1,172	-	1,172
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	50	5,534	277	-	277
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	100	10,361	1,036	-	1,036
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	73	5,634	411	-	411
MNT120	S&C - Renew crossing	Crossing	16,197	63	1,020	-	1,020
MNT123	S&C Renew Half Set of Switches	H/S Switch	13,966	47	656	-	656
MNT125	Track Inspection (Other)	Mile	32	35,827	1,146	-	1,146
MNT128	Lift & Replace Level Crossing for PWAY	Location	1,226	142	174	-	174
MNT150	Signalling Cables	Various	61	9,480	578	-	578
MNT155	Point End Routine Maintenance non Powered	Point End	36	7,793	281	-	281
MNT156	Point End Routine Maintenance Powered	Point End	51	65,314	3,331	-	3,331
MNT170	Vegetation Management (Manual)	Square Yard	2	302,416	605	-	605
MNT207	Maintain CRE Cables	Various	176	4	1	-	1
MNT210	Maintain Non-Traction Power Supplies	Each	42	175	7	-	7
MNT211	Maintain OHL Components	Various	94	13,210	1,242	-	1,242
MNT212	Maintain Points Heating	Each	19	9,780	186	-	186
Total					23,501	-	23,501
Expenditure outside unit cost framework						60,499	60,499
Total					23,501	60,499	84,000

Statement 14: Scotland Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

B) Maintenance expenditure 2012/13

Ref	Description	Unit of Measure (unit)	Unit Cost (£/unit)	Volume	Unit cost x Volume (£'000)	Other non-volume (£'000)	Total cost (£'000)
MNT004	Plain Line Tamping	Miles	4,392	283	1,243	-	1,243
MNT006	Manual Wet Bed Removal	Bay	130	2,417	320	-	320
MNT010	Replacement of S&C Bearers	Each	509	464	236	-	236
MNT011	S&C Arc Weld Repair	Number	695	525	365	-	365
MNT013	Level 1 Patrolling Track Inspection	Mile	64	90,487	5,758	-	5,758
MNT015	Weld Repair of Defective Rail	Number	512	1,056	541	-	541
MNT016	Installation of Pre-Fabricated IRJs	Joint	2,392	130	311	-	311
MNT020	Manual Reprofilng of Ballast	Rail Yard	4	92,736	381	-	381
MNT026	Replenishment of Ballast Train	Tonne	13	18,719	249	-	249
MNT027	Maintenance of Rail Lubricators	Lubricator	123	10,197	1,256	-	1,256
MNT029	Replacement of Pads & Insulators	Sleeper	17	34,023	593	-	593
MNT030	Maintenance of Longitudinal Timber	Timber	57	487	28	-	28
MNT032	CWR – Stressing	Yard	10	38,061	391	-	391
MNT039	Manual Spot Re-sleepering (Concrete)	Sleeper	259	301	78	-	78
MNT041	Manual Ultrasonic Inspection - (PL)	Rail Yard	396	3,219	1,276	-	1,276
MNT042	Manual Ultrasonic Inspection - (S&C)	Switch	83	4,761	396	-	396
MNT045	Rail Changing - CWR - Renew (Defects)	Rail Yard	133	13,350	1,782	-	1,782
MNT047	Rail Changing - Jointed Rail - Renew (Defects)	Rail Yard	79	4,225	334	-	334
MNT120	S&C - Renew crossing	Crossing	17,389	54	939	-	939
MNT123	S&C Renew Half Set of Switches	H/S Switch	14,772	57	842	-	842
MNT125	Track Inspection (Other)	Mile	29	43,039	1,237	-	1,237
MNT128	Lift & Replace Level Crossing for PWAY	Location	767	133	102	-	102
MNT150	Signalling Cables	Various	46	27,942	1,290	-	1,290
MNT155	Point End Routine Maintenance non Powered	Point End	61	8,184	496	-	496
MNT156	Point End Routine Maintenance Powered	Point End	72	67,910	4,880	-	4,880
MNT170	Vegetation Management (Manual)	Square Yard	4	181,821	746	-	746
MNT207	Maintain CRE Cables	Various	-	1	-	-	-
MNT210	Maintain Non-Traction Power Supplies	Each	54	92	5	-	5
MNT211	Maintain OHL Components	Various	53	42,262	2,256	-	2,256
MNT212	Maintain Points Heating	Each	24	7,272	171	-	171
Total					28,502	-	28,502
Expenditure outside unit cost framework						62,498	62,498
Total					28,502	62,498	91,000

Statement 14: Scotland Maintenance unit costs continued

In £m 2013/14 prices unless stated otherwise

Comments:

- (1) Network Rail has continued with improving the unit cost system architecture and processes as recommended by last year's review of unit costs undertaken by Arup. Improvements this year include:
 - a. Increasing granularity on labour costs included within the framework;
 - b. Reducing the timeframe of reporting actual data;
 - c. Improving the accessibility and visibility of the reported data and governance framework.
- (2) The proportion of costs disclosed through the MUC (Maintenance Unit Cost) framework in the above tables has decreased slightly compared to the previous year from 31 per cent to 28 per cent.

Statement 15: Scotland Renewals unit costs and coverage

In £m 2013/14 prices unless stated otherwise

A) Renewals unit costs 2013/14

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	275	123	34		34
	S&C equivalent unit renewal	409	45	18		18
	Other non-volume costs				30	30
	Total			52	30	82
Civils	701 Overbridge	1.58	1,412	2		2
	702 Underbridge	1.27	32,058	41		41
	703 Overbridge - Bridgeguard 3	1.83	2,407	4		4
	704 Footbridge	6.00	42	0		0
	705 Tunnel	4.32	209	1		1
	706 Culvert	5.91	79	0		0
	707 Retaining Wall	4.33	30	0		0
	708 Earthworks	0.16	255,769	41		41
	Other non-volume costs				22	22
	Total			89	22	111
Signalling	101 - Re-signalling	238	21	5		5
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	246	3	1		1
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				40	40
	Total			6	40	46
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	n/a	n/a	n/a		n/a
	503 - PETS/Level crossing	n/a	n/a	n/a		n/a
	504 - Small signal box concentrator	210	2	0		0
	506 - Customer Info system	7	26	0		0
	507 - Long line address system	4	910	4		4
	Other non-volume costs				18	18
	Total			4	18	22

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

B) Renewals unit costs 2012/13

Ref	Activity type	Unit Cost (£'000/unit)	Volume	Unit cost x Volume (£m)	Other non- volume (£m)	Total cost (£m)
Track	Plain line renewal (composite rate measures)	266	147	39		39
	S&C equivalent unit renewal	535	34	18		18
	Other non-volume costs				14	14
	Total			57	14	71
Civils	701 Overbridge	0.41	2,363	1		1
	702 Underbridge	1.563	12,514	20		20
	703 Overbridge - Bridgeguard 3	n/a	n/a	n/a		n/a
	704 Footbridge	0.00	42	0		0
	705 Tunnel	1.59	245	0		0
	706 Culvert	4.63	209	1		1
	707 Retaining Wall	4.52	25	0		0
	708 Earthworks	0.10	198,837	20		20
	Other non-volume costs				28	28
	Total			42	28	70
Signalling	101 - Re-signalling	195	111	22		22
	102 - Control Renewal	n/a	n/a	n/a		n/a
	103 - Interlocking renewal	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type	n/a	n/a	n/a		n/a
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a		n/a
	Other non-volume costs				29	29
	Total			22	29	51
Telecoms	501 - Large concentrator	n/a	n/a	n/a		n/a
	502 - DOO CCTV	n/a	n/a	n/a		n/a
	503 - PETS/Level crossing	14	7	0		0
	504 - Small signal box concentrator	n/a	n/a	n/a		n/a
	506 - Customer Info system	n/a	n/a	n/a		n/a
	507 - Long line address system	2	1,192	2		2
	Other non-volume costs				16	16
	Total			2	16	18

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

Notes:

- (1) The unit costs for telecoms and civils only include costs and volumes associated with projects that have completed during the year. Following the end of a project an analysis is performed to understand the costs and so create a more accurate unit cost framework when assessing future costs of similar projects. The amounts included in other non-volume costs are merely a balancing figure to reconcile total expenditure reported in this statement to the data provided in Statement 9a.
- (2) Signalling Re-signalling volumes presented in the above table are on an “earned” basis rather than a “commissioned” basis. Commissioning of signalling schemes refers to when the assets come into use but as costs can be incurred on signalling schemes over a number of years this would not give an appropriate indication of unit rates or the level of work completed. Instead, disclosing volumes on an earned basis allows a fairer reflection of the costs and activity in a particular year and allows for a more meaningful comparison.

Comments:

- (1) Overall, the value of renewals activities being reported through the renewals unit cost framework has increased by 23 percentage points. The proportion of renewals expenditure being measured through the renewals unit cost tables has increased from 42 per cent to 45 per cent. The relatively modest increase in coverage is due to additional expenditure in the current year on renewals activity which do not have associated volumes and unit costs, such as ORBIS (refer to Statement 9a).
- (2) Intuitively, fewer capital projects occur in Scotland than England & Wales. Therefore, depending upon the location of certain projects undertaken in different years, there may not always be comparable data in the prior or current year to compare renewals volumes and unit costs to for Scotland. In addition, as there are fewer projects delivered in Scotland the unit rates are inherently more volatile as there is less activity to neutralise the potentially distorting impact that an unusual project may have on the results.
- (3) Track – Plain line – volumes delivered were 16 per cent lower than the previous year. The total number of units delivered in the control period was marginally higher than those expected at the time of the Delivery Plan update 2010 (around 1 per cent) as certain projects were accelerated from future control periods. As noted in the previous year’s Regulatory Financial Statements there were a number of factors which limited delivery of projects (such as industrial action by a key logistics partner). Therefore, Network Rail planned to catch up some of this shortfall in 2013/14. The decrease in volumes compared to the previous year contributed to higher unit costs as a number of costs are fixed in the short term and have to be allocated across the number of units delivered. Another key factor in the unit rate uplift was the contractual shift with some delivery partners towards cost plus pricing, which exposed Network Rail to a greater proportion of underlying contractor cost whilst internal cost reflective pricing saw material and plant-based distribution costs cross-charged at a more open-market cost where previously this had been partially absorbed by National Delivery Service (refer to Statement 7b).

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (4) Track – S&C – volumes delivered in the year were 32 per cent higher than 2012/13 mainly due to the acceleration of activity from future control periods into the current year. Total volumes delivered in the control period were 5 per cent higher than those assumed in the Delivery Plan update 2010 as Network Rail identified opportunity to make a start on the control period 5 work bank. S&C unit costs were 25 per cent lower than the previous year. As noted in the previous year's Regulatory Financial Statements, the high unit cost in 2012/13 was partly due to late changes to the work bank and industrial action by key logistics supplier (necessitating late changes to designs and mobilisation costs). The additional units delivered in the year compared to 2012/13 also helped reduce rates as there are certain costs which are fixed in the medium term so higher volumes means more units to spread these costs over.
- (5) Civils – Overbridges – unit costs have increased by over 250 per cent compared to the previous year which was attributable to a single project (Fordell Colliery emergency repairs and bridge management). The reactive nature of this project contributed to the high costs. The level of Overbridge volumes delivered were about 40 per cent lower the prior year giving greater sensitivity to the projects completed. This lower level of volumes also played a part in the higher unit rates as there were fewer units to dilute the impact of the Fordell Colliery project.
- (6) Civils – Underbridges – unit costs were around 22 per cent lower than the previous year, more than offsetting to 12 per cent increase between 2011/12 and 2012/13. In 2013/14 certain projects (Marshall Steel strengthening and Calder viaduct) had relatively lower unit rates which contributed to the overall decrease. There was an increase of nearly 20,000 units delivered compared to the prior year. As noted in the prior year's Regulatory Financial Statements some projects planned for 2012/13 were deferred until 2013/14, simultaneously resulting in more units in the current year and less units in the comparative year. Notable projects include Calder viaduct, Ballochmyle Viaduct and River Irvine, all of which were at least partially developed in 2012/13 for completion before the end of the control period.
- (7) Civils – Bridgeguard 3 – there were no volumes or unit cost information reported for 2012/13 to compare the current year to.
- (8) Civils – Footbridges – as noted in the prior year's Regulatory Financial Statements the very small sample of jobs resulted in a very low unit cost sample with minimal costs being associated with the few volumes delivered which did not give a unit cost indicative of activity completed in Scotland. In the current year the unit costs were higher than 2012/13. Again, only a relatively small number of volumes were delivered with all volumes arising from one project (Robroyston) meaning that the unit costs in the current year were all a direct result of the characteristics of that particular project and, once more, not useful as a indication of the unit costs of Footbridge renewal in Scotland.
- (9) Civils – Tunnels – unit costs are significantly more than the previous year. This largely arose from the mix of works undertaken in the current year, notably Argyle Line tunnel service duct repairs. The higher unit rate also reflects works required to address increased performance incidents necessitating remedial works to significantly corroded area of service ducts and protective painting. Volumes were 15 per cent lower than the previous year to reflect the different work bank requirements.

Statement 15: Scotland Renewals unit costs and coverage continued

In £m 2013/14 prices unless stated otherwise

- (10)Civils – culverts – unit costs were higher than the previous year largely as a result of the differing composition of work banks between the different years. In the current year only three projects were completed, compared to eight in the previous year thus putting more sensitivity on the projects delivered in the current year. These replacement works projects had inherent characteristics which result in additional unit costs.
- (11)Civils - retaining walls – unit costs were in line with the previous year (4 per cent lower). Volumes were 20 per cent lower than the previous year, representing a decrease of 5 square metres on the prior year.
- (12)Civils - earthworks – unit costs have increased by nearly 60 per cent compared to the previous year, including additional emergency works. In such instances the requirement for immediate replacement resulted in higher unit costs as it is often impractical for projects to be planned in a manner to deliver in an optimal unit cost. Other projects with relatively high unit rates included Faskally Home farm, Loch Treig upper stone repair works and Wishaw embankment stabilisation. Partly as a result of these emergency works there was an increase of over 25 per cent in the number of volumes delivered.
- (13)Signalling – re-signalling – the increase in unit costs is attributable to the work mix undertaken in the current year. Activity in the current year largely arose from Stirling Middle and Kirknewton & Midclader. These projects were commissioned in the first half of the year resulting in less activity in the second half of the year and so a fall in volumes recognised.
- (14)Signalling – Level crossing renewals – the activity in the current year relates to stand alone schemes delivered in 2013/14 and, as there is no prior year unit rate information, a meaningful comparison cannot be performed.
- (15)Telecoms – PETS/ Level Crossing – there was no activity in the current year to compare the activity and unit costs in 2012/13 to. No volumes were expected to be delivered for this classification of telecoms in Network Rail's internal budget.
- (16)Telecoms - Small signal box concentrator – there was no activity in 2012/13 to compare unit costs and activity to.
- (17)Telecoms – Customer info systems – there was no activity in 2012/13 to compare unit costs and activity to.
- (18)Telecoms – Long line address system – volumes delivered were almost 25 per cent lower than the previous year. As noted in the prior year's Regulatory Financial Statements a number of units were accelerated from 2013/14 to 2012/13 simultaneously reducing the current year whilst increasing the previous year volumes. Unit costs were approximately twice as high this year compared to the prior year which reflects the work mix undertaken in the present year.

DISAGGREGATED ROUTE INFORMATION

Statement 1: Anglia Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	567
Expenditure	
Controllable opex	103
Non-controllable opex	68
Maintenance	104
Schedule 4 & 8	20
Renewals	275
Enhancements	159
Total expenditure	729

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £7m recognised through the opex memorandum mechanism, including £5m earned through volume incentives.

Statement 3: Anglia Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	2
Total Schemes covered by a tailored protocol or fixed price agreement	2
Funds	
CP5 development fund	-
NRDF (Network Rail Discretionary Fund)	11
Access for All	4
NSIP (National Stations Improvement Programme)	7
SFN (Strategic Freight Network)	34
Safety and environment fund	7
Adjustment due to change in funding from DfT	(4)
Total Funds	59
Other PR08 funded schemes	
Performance fund (HLOS)	25
Seven day railway fund	6
Platform Lengthening - Southern	4
Southern Capacity	1
Total Other PR08 funded schemes	36
Total PR08 funded enhancements	97
B) Investments not included in PR08	
Government sponsored schemes	
Crossrail	7
Stations Commercial Project Fund (SCPF)	1
Mid tier accessibility	2
CP5 early start schemes	2
High Speed development	1
Other Government sponsored schemes	2
Total Government sponsored schemes	15
Network Rail sponsored schemes (income generating)	
Liverpool Street offices	9
Acquisition of freight sites	19
Other income generating schemes	3
Total Network Rail sponsored schemes (income generating)	31
Schemes promoted by third parties	
Thameshaven Branch re-doubling	(10)
Total Schemes promoted by third parties	(10)
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	26
Total enhancement expenditure not meeting ORR criteria	26
Total Network Rail funded enhancements (see Statement 1)	159
Third party funded (PAYG)	26
Total enhancements	185

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Anglia Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	102
Variable charges	
Variable usage charge	14
Traction electricity charges net of costs	40
Electrification asset usage charge	2
Capacity charge	13
Station usage charges	-
Schedule 4 net income ⁽²⁾	8
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	77
Total franchised track access income	179
Grant income	286
Total franchised track access and grant income	465
Other single till income	
Property income	59
Freight income	3
Open access income	4
Stations income	31
Depots income	5
Other	-
Total other single till income	102
Total income	567

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) income does not include £5m recognised through the opex memorandum mechanism, including £2m earned through volume incentives..
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Anglia Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	21
Non-signaller staff costs	69
Staff incentives	5
Other employee related costs	14
Pensions	7
Consultants/contractors/agency	22
Insurance and claims	4
Accommodation, office, property expenses	12
Information management	5
Other	17
Total gross controllable operating expenditure	176
Less:	
Other operating income	(15)
Own work capitalised	(58)
Total controllable operating expenditure	103
Non-controllable operating expenditure	
Traction electricity costs	44
Cumulo rates	14
British Transport Police costs	7
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	68
Total operating expenditure	171

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Anglia Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	60
Structures	4
Signalling	17
Telecoms	2
Electrification	5
Plant & machinery	2
Operational property	-
Other	2
Total	92
Non-core maintenance	
Indirect costs	6
Other costs	6
Total	12
Total maintenance expenditure	104

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Anglia Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	79
Structures	63
Signalling	18
Telecoms	16
Electrification	41
Plant and machinery	6
Operational property	14
Other renewals	
Information management	9
Corporate offices	3
Discretionary investment	1
ORBIS	5
Other	20
Total	38
Total renewals expenditure	275

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Anglia Other information

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(17)
Net cost	(17)
Schedule 8	
Net amount receivable under NR regime	(3)
Net amount receivable under TOC regime	-
Net income	(3)
 B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	8
Cost	(17)
Net cost	(9)
Schedule 8	
Access Charge Supplement Income	-
Income	(3)
Net income	(3)
 C) Opex memorandum account	
Closing balance	
Volume incentive	5
Proposed amounts to be included in the CP5 expenditure allowance	2
Total logged up items – closing balance	7

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Anglia Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	5	28.96m	26.72 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£819m	£595m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.45m	2.53 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,815m	2,643 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	5					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: Kent Summary of regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	513
Expenditure	
Controllable opex	78
Non-controllable opex	53
Maintenance	68
Schedule 4 & 8	22
Renewals	261
Enhancements	485
Total expenditure	967

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £5m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.

Statement 3: Kent Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	283
Total Schemes covered by a tailored protocol or fixed price agreement	283
Funds	
NRDF (Network Rail Discretionary Fund)	10
Access for All	15
NSIP (National Stations Improvement Programme)	4
Adjustment due to change in funding from DfT	(8)
Total Funds	21
Other PR08 funded schemes	
Performance fund (HLOS)	9
Seven day railway fund	19
Platform Lengthening - Southern	36
Power supply upgrade	34
Total Other PR08 funded schemes	98
Total PR08 funded enhancements	402
B) Investments not included in PR08	
Government sponsored schemes	
Crossrail	25
Stations Commercial Project Fund (SCPF)	2
Mid tier accessibility	2
East Kent re-signalling	6
High Speed development	1
Other Government sponsored schemes	1
Total Government sponsored schemes	37
Network Rail sponsored schemes (income generating)	
London Bridge retail development project	8
Acquisition of freight sites	32
Other income generating schemes	5
Total Network Rail sponsored schemes (income generating)	45
Schemes promoted by third parties	
Other schemes promoted by third parties	(1)
Total Schemes promoted by third parties	(1)
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	2
Total enhancement expenditure not meeting ORR criteria	2
Total Network Rail funded enhancements (see Statement 1)	485
Third party funded (PAYG)	7
Total enhancements	492

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Kent Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	94
Variable charges	
Variable usage charge	9
Traction electricity charges net of costs	33
Electrification asset usage charge	1
Capacity charge	13
Station usage charges	-
Schedule 4 net income ⁽²⁾	2
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	58
Total franchised track access income	152
 Grant income	 275
Total franchised track access and grant income	427
 Other single till income	
Property income	23
Freight income	1
Open access income	-
Stations income	45
Depots income	6
Other	11
Total other single till income	86
 Total income	 513

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £5m recognised through the opex memorandum mechanism, including £2m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Kent Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	14
Non-signaller staff costs	53
Staff incentives	4
Other employee related costs	10
Pensions	5
Consultants/contractors/agency	16
Insurance and claims	3
Accommodation, office, property expenses	9
Information management	4
Other	16
Total gross controllable operating expenditure	134
Less:	
Other operating income	(10)
Own work capitalised	(46)
Total controllable operating expenditure	78
Non-controllable operating expenditure	
Traction electricity costs	36
Cumulo rates	10
British Transport Police costs	5
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	53
Total operating expenditure	131

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Kent Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	32
Structures	2
Signalling	12
Telecoms	2
Electrification	3
Plant & machinery	6
Operational property	-
Other	1
Total	58
Non-core maintenance	
Indirect costs	6
Other costs	4
Total	10
Total maintenance expenditure	68

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Kent Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	43
Structures	77
Signalling	26
Telecoms	12
Electrification	36
Plant and machinery	3
Operational property	41
Other renewals	
Information management	7
Corporate offices	3
Discretionary investment	1
ORBIS	3
Other	9
Total	23
Total renewals expenditure	261

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Kent Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(6)
Net cost	(6)
Schedule 8	
Net amount payable under NR regime	(16)
Net amount payable under TOC regime	-
Net cost	(16)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	2
Cost	(5)
Net cost	(3)
Schedule 8	
Access Charge Supplement Income	-
Cost	(16)
Net cost	(16)
C) Opex memorandum account	
Closing balance	
Volume incentive	3
Proposed amounts to be included in the CP5 expenditure allowance	2
Total logged up items – closing balance	5

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Kent Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	4	20.80 m	19.19 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£588 m	£428 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.76 m	1.82 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,022 m	1,898 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	4					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: LNE Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	1,091
Expenditure	
Controllable opex	180
Non-controllable opex	80
Maintenance	138
Schedule 4 & 8	67
Renewals	607
Enhancements	420
Total expenditure	1,492

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £10m recognised through the opex memorandum mechanism, including £8m earned through volume incentives.

Statement 3: LNE Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	33
Total Schemes covered by a tailored protocol or fixed price agreement	33
Funds	
NRDF (Network Rail Discretionary Fund)	22
Access for All	11
NSIP (National Stations Improvement Programme)	8
SFN (Strategic Freight Network)	9
Safety and environment fund	1
Adjustment due to change of funding from DfT	(7)
Total Funds	44
Other PR08 funded schemes	
Performance fund (HLOS)	20
Intercity express programme	15
King's Cross	17
East Coast Mainline overhead line enhancement	5
ECML improvements	174
Trans Pennine Express linespeed improvements	1
Total Other PR08 funded schemes	232
Total PR08 funded enhancements	309
B) Investments not included in PR08	
Government sponsored schemes	
Electrification	6
Stations Commercial Project Fund (SCPF)	14
Mid tier accessibility	2
CP5 early start schemes	2
High Speed development	2
Other Government sponsored schemes	2
Total Government sponsored schemes	28
Network Rail sponsored schemes (income generating)	
Acquisition of freight sites	50
Mooring Lane, Hackney Arches re-development	7
Other income generating schemes	10
Total Network Rail sponsored schemes (income generating)	67
Schemes promoted by third parties	
Other schemes promoted by third parties	(2)
Total Schemes promoted by third parties	(2)
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	18
Total enhancement expenditure not meeting ORR criteria	18
Total Network Rail funded enhancements (see Statement 1)	420
Third party funded (PAYG)	53
Total enhancements	473

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: LNE Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	257
Variable charges	
Variable usage charge	29
Traction electricity charges net of costs	38
Electrification asset usage charge	2
Capacity charge	15
Station usage charges	-
Schedule 4 net income ⁽²⁾	30
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	114
Total franchised track access income	371
Grant income	628
Total franchised track access and grant income	999
Other single till income	
Property income	7
Freight income	21
Open access income	10
Stations income	47
Depots income	7
Other	-
Total other single till income	92
Total income	1,091

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £10m recognised through the opex memorandum mechanism, including £2m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: LNE Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	47
Non-signaller staff costs	106
Staff incentives	7
Other employee related costs	24
Pensions	12
Consultants/contractors/agency	36
Insurance and claims	7
Accommodation, office, property expenses	20
Information management	9
Other	27
Total gross controllable operating expenditure	295
Less:	
Other operating income	(20)
Own work capitalised	(95)
Total controllable operating expenditure	180
Non-controllable operating expenditure	
Traction electricity costs	41
Cumulo rates	23
British Transport Police costs	12
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	3
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	80
Total operating expenditure	260

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: LNE Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	73
Structures	6
Signalling	19
Telecoms	5
Electrification	6
Plant & machinery	6
Operational property	-
Other	1
Total	116
Non-core maintenance	
Indirect costs	15
Other costs	7
Total	22
Total maintenance expenditure	138

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: LNE Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	209
Structures	125
Signalling	98
Telecoms	38
Electrification	14
Plant and machinery	22
Operational property	38
Other renewals	
Information management	15
Corporate offices	11
Discretionary investment	2
ORBIS	8
Other	27
Total	63
Total renewals expenditure	607

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: LNE Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(29)
Net cost	(29)
Schedule 8	
Net amount payable under NR regime	(37)
Net amount payable under TOC regime	(1)
Net cost	(38)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	30
Cost	(29)
Net income	1
Schedule 8	
Access Charge Supplement Income	-
Cost	(38)
Net cost	(38)
C) Opex memorandum account	
Closing balance	
Volume incentive	8
Proposed amounts to be included in the CP5 expenditure allowance	2
Total logged up items – closing balance	10

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: LNE Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	8	47.59 m	43.91m	0.8%	69p	per passenger train mile
Passenger farebox	-	£1,345 m	£978 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	4.03 m	4.15 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	4,626 m	4,343 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	8					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: LNW Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	1,490
Expenditure	
Controllable opex	259
Non-controllable opex	126
Maintenance	243
Schedule 4 & 8	63
Renewals	883
Enhancements	481
Total expenditure	2,055

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £59m recognised through the opex memorandum mechanism, including £13m earned through volume incentives.

Statement 3: LNW Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Total Schemes covered by a tailored protocol or fixed price agreement	-
Funds	
CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	18
Access for All	23
NSIP (National Stations Improvement Programme)	10
SFN (Strategic Freight Network)	12
Safety and environment fund	16
Adjustment due to change in funding from DfT	(14)
Total Funds	66
Other PR08 funded schemes	
Performance fund (HLOS)	5
Seven day railway fund	54
Birmingham New Street gateway project	26
WCML Committed Schemes	77
Midlands Improvement Programme	9
Northern Urban Centres - Manchester	5
Trans Pennine Express linespeed improvements	7
Unallocated overheads	5
Total Other PR08 funded schemes	188
Total PR08 funded enhancements	254
B) Investments not included in PR08	
Government sponsored schemes	
Electrification	82
Northern Hub – phase 1	21
Stations Commercial Project Fund (SCPF)	26
Mid Tier Accessibility	4
Walsall-Rugeley Structure	(8)
East-West rail	63
High Speed development	5
Birmingham New Street	25
Other Government sponsored schemes	20
Total Government sponsored schemes	238
Network Rail sponsored schemes (income generating)	
Acquisition of freight sites	11
Other income generating schemes	2
Total Network Rail sponsored schemes (income generating)	13
Schemes promoted by third parties	
Evergreen 3	(23)
Other schemes promoted by third parties	(3)
Total Schemes promoted by third parties	(26)
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	2
Total enhancement expenditure not meeting ORR criteria	2
Total Network Rail funded enhancements (see Statement 1)	481
Third party funded (PAYG)	30
Total enhancements	511

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: LNW Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	215
Variable charges	
Variable usage charge	45
Traction electricity charges net of costs	61
Electrification asset usage charge	2
Capacity charge	48
Station usage charges	-
Schedule 4 net income ⁽²⁾	33
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	189
Total franchised track access income	404
Grant income	941
Total franchised track access and grant income	1,345
Other single till income	
Property income	20
Freight income	14
Open access income	-
Stations income	97
Depots income	12
Other	2
Total other single till income	145
Total income	1,490

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £59m recognised through the opex memorandum mechanism, including £13m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: LNW Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	54
Non-signaller staff costs	172
Staff incentives	14
Other employee related costs	36
Pensions	18
Consultants/contractors/agency	60
Insurance and claims	7
Accommodation, office, property expenses	31
Information management	13
Other	44
Total gross controllable operating expenditure	449
Less:	
Other operating income	(34)
Own work capitalised	(156)
Total controllable operating expenditure	259
Non-controllable operating expenditure	
Traction electricity costs	65
Cumulo rates	35
British Transport Police costs	19
Rail Safety and Standards Board levy	2
ORR fees (incl. ORR Licence fee and the railway safety levy)	5
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	126
Total operating expenditure	385

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: LNW Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	122
Structures	9
Signalling	42
Telecoms	8
Electrification	20
Plant & machinery	8
Operational property	-
Other	3
Total	212
Non-core maintenance	
Indirect costs	19
Other costs	12
Total	31
Total maintenance expenditure	243

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: LNW Summary Analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	226
Structures	165
Signalling	123
Telecoms	44
Electrification	24
Plant and machinery	26
Operational property	137
Other renewals	
Information management	24
Corporate offices	11
Discretionary investment	9
West Coast Rollover	32
ORBIS	13
Other	49
Total	138
Total renewals expenditure	883

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: LNW Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(27)
Net cost	(27)
Schedule 8	
Net amount payable under NR regime	(37)
Net amount receivable under TOC regime	1
Net cost	(36)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	33
Cost	(27)
Net income	6
Schedule 8	
Access Charge Supplement Income	-
Cost	(36)
Net cost	(36)
C) Opex memorandum account	
Closing balance	
Volume incentive	13
Proposed amounts to be included in the CP5 expenditure allowance	46
Total logged up items – closing balance	59

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: LNW Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	12	74.71 m	68.93 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£2,112 m	£1,536 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	6.32 m	6.52 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	7,265 m	6,818 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	12					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: East Midlands Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	423
Expenditure	
Controllable opex	52
Non-controllable opex	18
Maintenance	52
Schedule 4 & 8	34
Renewals	193
Enhancements	163
Total expenditure	512

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £9m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.

Statement 3: East Midlands Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	33
Total Schemes covered by a tailored protocol or fixed price agreement	33
Funds	
NRDF (Network Rail Discretionary Fund)	1
Access for All	3
NSIP (National Stations Improvement Programme)	1
SFN (Strategic Freight Network)	26
Safety and environment fund	3
Adjustment due to change in DfT funding	(2)
Total Funds	32
Other PR08 funded schemes	
Performance fund (HLOS)	1
Seven day railway fund	3
St Pancras - Sheffield line speed improvements	31
Nottingham Resignalling	5
Total Other PR08 funded schemes	40
Total PR08 funded enhancements	105
B) Investments not included in PR08	
Government sponsored schemes	
CP5 early start schemes	(1)
NEP – Midland Main Line	24
Other Government sponsored schemes	5
Total Government sponsored schemes	28
Network Rail sponsored schemes (income generating)	
Acquisition of freight sites	14
Other income generating schemes	3
Total Network Rail sponsored schemes (income generating)	17
Schemes promoted by third parties	
EMT promoted schemes	(3)
Nottingham hub	14
Other schemes promoted by third parties	(1)
Total Schemes promoted by third parties	10
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	3
Total enhancement expenditure not meeting ORR criteria	3
Total Network Rail funded enhancements (see Statement 1)	163
Third party funded (PAYG)	15
Total enhancements	178

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: East Midlands Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	113
Variable charges	
Variable usage charge	10
Traction electricity charges net of costs	5
Electrification asset usage charge	-
Capacity charge	26
Station usage charges	-
Schedule 4 net income ⁽²⁾	10
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	51
Total franchised track access income	164
 Grant income	 237
Total franchised track access and grant income	401
 Other single till income	
Property income	1
Freight income	2
Open access income	-
Stations income	14
Depots income	5
Other	-
Total other single till income	22
 Total income	 423

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £9m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: East Midlands Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	10
Non-signaller staff costs	35
Staff incentives	3
Other employee related costs	8
Pensions	4
Consultants/contractors/agency	13
Insurance and claims	2
Accommodation, office, property expenses	6
Information management	3
Other	9
Total gross controllable operating expenditure	93
Less:	
Other operating income	(7)
Own work capitalised	(34)
Total controllable operating expenditure	52
Non-controllable operating expenditure	
Traction electricity costs	5
Cumulo rates	8
British Transport Police costs	4
Rail Safety and Standards Board levy	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	18
Total operating expenditure	70

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: East Midlands Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	30
Structures	2
Signalling	7
Telecoms	1
Electrification	2
Plant & machinery	2
Operational property	-
Other	2
Total	46
Non-core maintenance	
Indirect costs	3
Other costs	3
Total	6
Total maintenance expenditure	52

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: East Midlands Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	88
Structures	27
Signalling	35
Telecoms	9
Electrification	4
Plant and machinery	2
Operational property	11
Other renewals	
Information management	6
Corporate offices	-
Discretionary investment	6
ORBIS	3
Other	2
Total	17
Total renewals expenditure	193

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: East Midlands Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(23)
Net cost	(23)
Schedule 8	
Net amount payable under NR regime	(11)
Net amount payable under TOC regime	-
Net cost	(11)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	10
Cost	(23)
Net cost	(13)
Schedule 8	
Access Charge Supplement Income	-
Cost	(11)
Net cost	(11)
C) Opex memorandum account	
Closing balance	
Volume incentive	3
Proposed amounts to be included in the CP5 expenditure allowance	6
Total logged up items – closing balance	9

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: East Midlands Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformanc e reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	3	16.76 m	15.47 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£474 m	£345 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.42 m	1.46 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,630 m	1,530 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	3					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: Sussex Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	408
Expenditure	
Controllable opex	75
Non-controllable opex	49
Maintenance	48
Schedule 4 & 8	41
Renewals	222
Enhancements	181
Total expenditure	616

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £43m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.

Statement 3: Sussex Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Thameslink	20
Total Schemes covered by a tailored protocol or fixed price agreement	20
Funds	
NRDF (Network Rail Discretionary Fund)	34
Access for All	3
NSIP (National Stations Improvement Programme)	4
Safety and environment fund	3
Adjustment due to change in funding from DfT	(3)
Total Funds	41
Other PR08 funded schemes	
Performance fund (HLOS)	16
Seven day railway fund	19
Platform Lengthening - Southern	22
Southern Capacity	16
Power supply upgrade	5
Total Other PR08 funded schemes	78
Total PR08 funded enhancements	139
B) Investments not included in PR08	
Government sponsored schemes	
Stations Commercial Projects Funds (SCPF)	5
Mid tier accessibility	3
CP5 early start schemes	6
Total Government sponsored schemes	14
Network Rail sponsored schemes (income generating)	
Victoria Place shopping centre	11
Acquisition of freight sites	13
Other income generating schemes	2
Total Network Rail sponsored schemes (income generating)	26
Schemes promoted by third parties	
Total Schemes promoted by third parties	-
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	2
Total enhancement expenditure not meeting ORR criteria	2
Total Network Rail funded enhancements (see Statement 1)	181
Third party funded (PAYG)	24
Total enhancements	205

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Sussex Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	72
Variable charges	
Variable usage charge	9
Traction electricity charges net of costs	31
Electrification asset usage charge	1
Capacity charge	16
Station usage charges	-
Schedule 4 net income ⁽²⁾	8
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	65
Total franchised track access income	137
 Grant income	 212
Total franchised track access and grant income	349
 Other single till income	
Property income	7
Freight income	-
Open access income	-
Stations income	45
Depots income	7
Other	-
Total other single till income	59
 Total income	 408

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £43m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Sussex Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	14
Non-signaller staff costs	48
Staff incentives	4
Other employee related costs	9
Pensions	4
Consultants/contractors/agency	16
Insurance and claims	3
Accommodation, office, property expenses	9
Information management	4
Other	13
Total gross controllable operating expenditure	124
Less:	
Other operating income	(9)
Own work capitalised	(40)
Total controllable operating expenditure	75
Non-controllable operating expenditure	
Traction electricity costs	33
Cumulo rates	9
British Transport Police costs	5
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	49
Total operating expenditure	124

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Sussex Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	24
Structures	2
Signalling	9
Telecoms	1
Electrification	2
Plant & machinery	2
Operational property	-
Other	-
Total	40
Non-core maintenance	
Indirect costs	4
Other costs	4
Total	8
Total maintenance expenditure	48

Notes:

- (1) These costs only include direct costs.
- (2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Sussex Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	35
Structures	44
Signalling	57
Telecoms	16
Electrification	14
Plant and machinery	3
Operational property	24
Other renewals	
Information management	7
Corporate offices	1
Discretionary investment	1
ORBIS	3
Other	17
Total	29
Total renewals expenditure	222

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Sussex Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(13)
Net cost	(13)
Schedule 8	
Net amount payable under NR regime	(29)
Net amount receivable under TOC regime	1
Net cost	(28)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	8
Cost	(14)
Net income	(6)
Schedule 8	
Access Charge Supplement Income	-
Cost	(28)
Net cost	(28)
C) Opex memorandum account	
Closing balance	
Volume incentive	3
Proposed amounts to be included in the CP5 expenditure allowance	40
Total logged up items – closing balance	43

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Sussex Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	3	19.91 m	18.37 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£563 m	£409 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.68 m	1.74 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,935 m	1,817 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	3					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: Wessex Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income⁽¹⁾	552
Expenditure	
Controllable opex	83
Non-controllable opex	62
Maintenance	80
Schedule 4 & 8	40
Renewals	314
Enhancements	114
Total expenditure	693

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £6m recognised through the opex memorandum mechanism, including £5m earned through volume incentives.

Comment:

The deep alliance in the Wessex route between Network Rail and Stagecoach South West Trains commenced in April 2012.

By entering into the alliance, the Parties undertook to work to improve the efficiency and productivity of the joint resources and assets available, aligning incentives and removing barriers to working to realise cost savings, while respecting the requirement of separation in relation to certain activities of infrastructure managers and train operators.

It is also expected that the alliance will improve joint decision making processes, allow improved collaboration and deliver benefits to customers.

A pain/gain share arrangement has been in place, with payments between the parties measured against an agreed opex baseline. The baseline includes income and costs managed by the route and the train operating company, including the impact of performance regime compensation payments.

The Alliance agreement terms resulted in payments of £5.4m being due from Network Rail to South West Trains.

In addition, a payment of £2.4m is due under an incentive agreement which was based on achievement of renewals work bank on the route.

The 'deep' Alliance between the Wessex Route and SSWT has been extended and there is provision for the arrangement to last until March 2019. The DfT however, still see this as trial and are keen to assess whether this is the appropriate structural model to roll-out further.

The extended arrangement is very similar to the original agreement although the benefit sharing arrangements have changed.

Statement 1: Wessex Summary regulatory financial performance continued

In £m 2013/14 prices unless stated otherwise

In the last year, the focus of the Alliance has continued to be on improving performance. The severe Autumn/Winter weather caused significant problems with a number of earthworks failures and high number of trees falling onto the track. The benefits of the Alliance can clearly be evidenced by the way that these landslips and tree falls were managed. Collaborative working meant that greater access was given, knowledge and information was shared and the lines of route were returned to normal operation much quicker than they would have been had the two organisations not been in the Alliance.

The Alliance has published a 5 year Business Plan that addresses the 5 main business goals (Safety, Operational Performance, Customer Service, People and Efficiency), and that sets the agenda for the remainder of the Control Period. This is an exciting proposal that touches upon all aspects of the Business.

The Alliance, again through unique collaborative working, has also developed and submitted a capacity improvement proposal to the DfT that includes the full operation of Waterloo International and addresses the structural problems associated with platforms 1 to 4 at Waterloo.

Statement 3: Wessex Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Total Schemes covered by a tailored protocol or fixed price agreement	-
Funds	
NRDF (Network Rail Discretionary Rail)	4
Access for All	19
NSIP (National Stations Improvement Programme)	6
Safety and environment fund	2
Adjustment due to change in funding from DfT	(11)
Total Funds	20
Other PR08 funded schemes	
Performance Fund (HLOS)	5
Seven Day Railway Fund	10
Platform Lengthening – Southern	25
Power supply upgrade	19
Total Other PR08 funded schemes	59
Total PR08 funded enhancements	79
B) Investments not included in PR08	
Government sponsored schemes	
Stations Commercial Project Fund (SCPF)	6
CP5 early start schemes	2
High Speed development	1
Other government sponsored schemes	1
Total Government sponsored schemes	10
Network Rail sponsored schemes (income generating)	
Acquisition of freight sites	19
Other income generating schemes	3
Total Network Rail sponsored schemes (income generating)	22
Schemes promoted by third parties	
SSWT ticket gates and vending machines	4
Other schemes promoted by third parties	(2)
Total Schemes promoted by third parties	2
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	1
Total enhancement expenditure not meeting ORR criteria	1
Total Network Rail funded enhancements (see Statement 1)	114
Third party funded (PAYG)	7
Total enhancements	121

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Wessex Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	89
Variable charges	
Variable usage charge	13
Traction electricity charges net of costs	37
Electrification asset usage charge	1
Capacity charge	9
Station usage charges	-
Schedule 4 net income ⁽²⁾	15
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	75
Total franchised track access income	164
Grant income	307
Total franchised track access and grant income	471
Other single till income	
Property income	16
Freight income	1
Open access income	-
Stations income	57
Depots income	7
Other	-
Total other single till income	81
Total income	552

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £6m recognised through the opex memorandum mechanism, including £5m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Wessex Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	13
Non-signaller staff costs	61
Staff incentives	5
Other employee related costs	13
Pensions	6
Consultants/contractors/agency	19
Insurance and claims	4
Accommodation, office, property expenses	12
Information management	5
Other	17
Total gross controllable operating expenditure	155
Less:	
Other operating income	(15)
Own work capitalised	(57)
Total controllable operating expenditure	83
Non-controllable operating expenditure	
Traction electricity costs	39
Cumulo rates	13
British Transport Police costs	7
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	62
Total operating expenditure	145

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Wessex Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	40
Structures	3
Signalling	14
Telecoms	2
Electrification	2
Plant & machinery	2
Operational property	-
Other	1
Total	64
Non-core maintenance	
Indirect costs	8
Other costs	8
Total	16
Total maintenance expenditure	80

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Wessex Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	99
Structures	48
Signalling	43
Telecoms	14
Electrification	35
Plant and machinery	10
Operational property	18
Other renewals	
Information management	9
Corporate offices	8
Discretionary investment	1
ORBIS	5
Other	24
Total	47
Total renewals expenditure	314

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Wessex Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(15)
Net cost	(15)
Schedule 8	
Net amount payable under NR regime	(24)
Net amount payable under TOC regime	(1)
Net cost	(25)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	15
Cost	(15)
Net income	-
Schedule 8	
Access Charge Supplement Income	-
Cost	(25)
Net cost	(25)
C) Opex memorandum account	
Closing balance	
Volume incentive	5
Proposed amounts to be included in the CP5 expenditure allowance	1
Total logged up items – closing balance	6

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Wessex Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	5	27.79 m	25.65 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£786 m	£571 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.35 m	2.43 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,702 m	2,537 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	5					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: Western Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Income ⁽¹⁾	660
Expenditure	
Controllable opex	84
Non-controllable opex	23
Maintenance	85
Schedule 4 & 8	57
Renewals	398
Enhancements	652
Total expenditure	1,299

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £12m recognised through the opex memorandum mechanism, including £5m earned through volume incentives.

Statement 3: Western Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
A) Enhancements included in PR08	
Schemes covered by a tailored protocol or fixed price agreement	
Total Schemes covered by a tailored protocol or fixed price agreement	
Funds	
CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	1
NSIP (National Stations Improvement Programme)	3
SFN (Strategic Freight Network)	20
Safety and environment fund	2
Adjustment due to change of funding from DfT	(1)
Total Funds	26
Other PR08 funded schemes	
Performance fund (HLOS)	4
Seven day railway fund	14
Intercity express programme	9
Crossrail and Reading	91
Western Improvements Programme	1
Unallocated overheads	3
Total Other PR08 funded schemes	122
Total PR08 funded enhancements	148
B) Investments not included in PR08	
Government sponsored schemes	
Crossrail	169
Electrification	179
Stations Commercial Project Fund (SCPF)	11
Mid Tier Accessibility	2
CP5 early start schemes	1
Swindon-Kemble line doubling	32
Reading	95
Total Government sponsored schemes	489
Network Rail sponsored schemes (income generating)	
Acquisition of freight sites	11
Other income generating schemes	2
Total Network Rail sponsored schemes (income generating)	13
Schemes promoted by third parties	
Total Schemes promoted by third parties	-
Enhancement expenditure not meeting ORR criteria	
Outperformance expenditure	2
Total enhancement expenditure not meeting ORR criteria	2
Total Network Rail funded enhancements (see Statement 1)	652
Third party funded (PAYG)	24
Total enhancements	676

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Western Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	120
Variable charges	
Variable usage charge	18
Traction electricity charges net of costs	-
Electrification asset usage charge	-
Capacity charge	30
Station usage charges	-
Schedule 4 net income ⁽²⁾	29
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	77
Total franchised track access income	197
Grant income	397
Total franchised track access and grant income	594
Other single till income	
Property income	6
Freight income	5
Open access income	10
Stations income	35
Depots income	9
Other	1
Total other single till income	66
Total income	660

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £12m recognised through the opex memorandum mechanism, including £5m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Western Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	16
Non-signaller staff costs	63
Staff incentives	4
Other employee related costs	14
Pensions	6
Consultants/contractors/agency	21
Insurance and claims	4
Accommodation, office, property expenses	13
Information management	5
Other	15
Total gross controllable operating expenditure	161
Less:	
Other operating income	(16)
Own work capitalised	(61)
Total controllable operating expenditure	84
Non-controllable operating expenditure	
Traction electricity costs	-
Cumulo rates	13
British Transport Police costs	7
Rail Safety and Standards Board levy	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	2
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	23
Total operating expenditure	107

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Western Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	46
Structures	3
Signalling	17
Telecoms	2
Electrification	1
Plant & machinery	2
Operational property	-
Other	(1)
Total	70
Non-core maintenance	
Indirect costs	8
Other costs	7
Total	15
Total maintenance expenditure	85

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Western Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	91
Structures	97
Signalling	139
Telecoms	18
Electrification	1
Plant and machinery	6
Operational property	23
Other renewals	
Information management	9
Corporate offices	-
Discretionary investment	1
ORBIS	5
Other	8
Total	23
Total renewals expenditure	398

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Western Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(20)
Net cost	(20)
Schedule 8	
Net amount payable under NR regime	(35)
Net amount payable under TOC regime	(2)
Net cost	(37)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	29
Cost	(20)
Net income	9
Schedule 8	
Access Charge Supplement Income	-
Cost	(37)
Net cost	(37)
C) Opex memorandum account	
Closing balance	
Volume incentive	5
Proposed amounts to be included in the CP5 expenditure allowance	7
Total logged up items – closing balance	12

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Western Volume incentives

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	5	27.95 m	25.79 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£790 m	£574 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.37 m	2.44 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,717 m	2,551 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	5					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 1: Wales Summary regulatory financial performance

In £m 2013/14 prices unless stated otherwise

	2012/13
	Actual
Income ⁽¹⁾	321
Expenditure	
Controllable opex	59
Non-controllable opex	13
Maintenance	50
Schedule 4 & 8	11
Renewals	211
Enhancements	46
Total expenditure	390

Note:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £4m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.

Statement 3: Wales Analysis of enhancement capital expenditure

In £m 2013/14 prices unless stated otherwise

2013/14

A) Enhancements included in PR08

Schemes covered by a tailored protocol or fixed price agreement

Total Schemes covered by a tailored protocol or fixed price agreement	-
--	----------

Funds

CP5 development fund	1
NRDF (Network Rail Discretionary Fund)	1
Access for All	4
NSIP (National Stations Improvement Programme)	1
Adjustment due to change of funding from DfT	(2)

Total Funds	5
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Other PR08 funded schemes

Performance fund (HLOS)	1
Seven day railway fund	1
Western Improvements Programme	9

Total Other PR08 funded schemes	11
--	-----------

Total PR08 funded enhancements	16
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B) Investments not included in PR08

Government sponsored schemes

Mid Tier Accessibility	3
CP5 early start schemes	1
High Speed development	1

Total Government sponsored schemes	5
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Network Rail sponsored schemes (income generating)

Acquisition of freight site	19
Other income generating schemes	4

Total Network Rail sponsored schemes (income generating)	23
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Schemes promoted by third parties

Total Schemes promoted by third parties	-
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Enhancement expenditure not meeting ORR criteria

Outperformance expenditure	2
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Total enhancement expenditure not meeting ORR criteria	2
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Total Network Rail funded enhancements (see Statement 1)	46
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Third party funded (PAYG)	47
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Total enhancements	93
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Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 6a: Wales Analysis of income

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Fixed charges	80
Variable charges	
Variable usage charge	5
Traction electricity charges net of costs	-
Electrification asset usage charge	-
Capacity charge	7
Station usage charges	-
Schedule 4 net income ⁽²⁾	1
Schedule 8 net income ⁽³⁾	-
Total gross variable charge income	13
Total franchised track access income	93
Grant income	209
Total franchised track access and grant income	302
Other single till income	
Property income	3
Freight income	4
Open access income	-
Stations income	9
Depots income	3
Other	-
Total other single till income	19
Total income	321

Notes:

- (1) No PR08 comparison has been provided by the ORR for this schedule.
- (2) Income does not include £4m recognised through the opex memorandum mechanism, including £3m earned through volume incentives.
- (3) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under the Schedule 4 regime are disclosed in Statement 10.
- (4) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under the Schedule 8 regime are disclosed in Statement 10.

Statement 7a: Wales Analysis of operating expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14 Actual
Controllable operating expenditure	
Signaller staff costs	17
Non-signaller staff costs	34
Staff incentives	3
Other employee related costs	8
Pensions	4
Consultants/contractors/agency	11
Insurance and claims	2
Accommodation, office, property expenses	6
Information management	3
Other	10
Total gross controllable operating expenditure	98
Less:	
Other operating income	(6)
Own work capitalised	(33)
Total controllable operating expenditure	59
Non-controllable operating expenditure	
Traction electricity costs	-
Cumulo rates	8
British Transport Police costs	4
Rail Safety and Standards Board levy	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	1
Other (i.e. CIRAS fees)	-
Total non-controllable operating expenditure	13
Total operating expenditure	72

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 8a: Wales Summary analysis of maintenance expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Core Maintenance ⁽¹⁾	
Track	26
Structures	2
Signalling	9
Telecoms	1
Electrification	-
Plant & machinery	1
Operational property	-
Other	2
Total	41
Non-core maintenance	
Indirect costs	5
Other costs	4
Total	9
Total maintenance expenditure	50

Notes:

(1) These costs only include direct costs.

(2) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Wales Summary analysis of renewals expenditure

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
Track	57
Structures	64
Signalling	58
Telecoms	9
Electrification	-
Plant and machinery	4
Operational property	8
Other renewals	
Information management	5
Corporate offices	-
Discretionary investment	3
ORBIS	3
Other	-
Total	11
Total renewals expenditure	211

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 10: Wales Other information

In £m 2013/14 prices unless stated otherwise

	2013/14
	Actual
A) Analysis of Schedule 4 & 8 income/(cost) - performance element	
Schedule 4	
Income	-
Cost	(9)
Net cost	(9)
Schedule 8	
Net amount payable under NR regime	(1)
Net amount payable under TOC regime	(1)
Net cost	(2)
B) Net Impact of Schedule 4 & 8	
Schedule 4	
Access Charge Supplement Income	1
Cost	(9)
Net income	(8)
Schedule 8	
Access Charge Supplement Income	-
Cost	(2)
Net cost	(2)
C) Opex memorandum account	
Closing balance	
Volume incentive	3
Proposed amounts to be included in the CP5 expenditure allowance	1
Total logged up items – closing balance	4

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 13: Wales Volume incentives

In £m 2013/14 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward (2006/07 prices)	Outperformance reward - notes
Passenger train miles	3	16.28 m	15.03 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£460 m	£335 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	1.38 m	1.42 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	1,583 m	1,486 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	3					

Note:

(1) The volume incentive is calculated based on outperformance of a target which is based on the 2008/09 baseline. This baseline has not been supplied by ORR for each operational route so the baselines have been allocated on the basis of passenger train miles. Actual data does not directly correspond to activity in the route but is merely the total England & Wales result apportioned to each route on the basis of train miles.

Statement 16: Strategic routes maintenance analysis

In £m 2013/14 prices unless stated

	Track	Signalling	Structures	Electrification	Plant and machinery	Telecoms	Operational property	Other	Total maintenance
Kent	28	11	2	3	5	2	-	10	61
Sussex	28	11	2	2	3	1	-	10	57
Wessex	39	13	3	2	2	2	-	17	78
East Anglia	48	13	3	4	2	2	-	11	83
North London Line	2	1	-	-	-	-	-	-	3
Thameside	10	3	1	1	-	-	-	2	17
East Coast and North East	62	16	5	6	5	4	-	20	118
Cross-Pennine, Yorks & Humber and North West	32	10	2	4	2	2	-	9	61
London and East Midlands	30	7	2	2	2	1	-	8	52
London and West Midlands	27	10	2	1	1	1	-	8	50
West of England	17	6	1	-	1	2	-	5	32
Wales	29	10	2	-	1	1	-	12	55
West Midlands & Chilterns	26	9	2	4	2	2	-	7	52
West Coast	80	28	6	13	5	5	-	23	160
Merseyside	4	1	-	1	-	-	-	1	7
Scotland East	17	6	2	3	1	1	-	6	36
Scotland West	14	5	2	2	1	1	-	5	30

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Statement 17: Strategic routes renewals analysis

In £m 2013/14 prices unless stated

	Track	Signalling	Structures	Electrification	Plant and machinery	Telecoms	Operational property	Other	Total renewals
Kent	38	23	69	31	1	11	37	21	233
Sussex	42	60	53	18	3	17	29	33	255
Wessex	96	42	47	34	10	14	17	46	306
East Anglia	63	14	50	33	5	13	11	30	219
North London Line	2	1	3	1	-	-	-	1	8
Thameside	13	3	9	7	1	3	2	6	44
East Coast and North East	173	82	111	13	18	32	34	51	514
Cross-Pennine, Yorks & Humber and North West	74	37	48	6	7	14	27	33	246
London and East Midlands	88	35	28	4	2	9	11	18	195
London and West Midlands	54	82	57	1	4	11	14	13	236
West of England	35	52	37	1	2	7	9	8	151
Wales	62	61	67	-	5	10	11	13	229
West Midlands & Chilterns	49	30	36	5	5	9	27	29	190
West Coast	149	81	114	16	18	30	89	88	585
Merseyside	7	4	5	1	1	1	4	3	26
Scotland East	35	20	48	4	6	9	16	7	145
Scotland West	29	16	39	3	5	8	13	6	119

Note:

(1) No PR08 comparison has been provided by the ORR for this schedule.

Appendices to the Regulatory financial statements

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2014

In £m 2013/14 prices unless stated

	£m	£m
Valuations per statutory accounts at 31 March 2014		
Property, plant and equipment – the railway network	49,810	
Investment properties	856	
Unamortised Capital grants	(2,688)	
		47,978
Adjustment for cash flow differences in the Strategic Business Plan compared to Periodic Review 2013		660
Impact of tax double count adjustment set out in Periodic Review 2013		1,310
Changes agreed with ORR after publication of the statutory accounts:		
FTN efficient overspend	50	
Latest ORR view on adjustments for missed regulatory outputs	57	
Other	22	
		129
RAB valuation at 31 March 2014 (Statement 2a)		50,077

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2014

In £m 2013/14 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2014 per the regulatory Statements (Statement 1)	1,617	952	2,569
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,521		1,521
Reactive maintenance expenditure		196	196
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	56		56
Network Rail (High Speed) Limited	(10)		(10)
	1,567	196	1,763
Operating and maintenance expenditure for year ended 31 March 2014 per the statutory accounts	3,184	1,148	4,332

Note:

⁽¹⁾ This includes depreciation expenses of £1,603m and capital grant amortisation of £82m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2014

In £m 2013/14 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2014 (Statements 1 and 6a)		6,741
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(364)	
Income from property sales	(41)	
Network Rail (High Speed) Limited	(10)	
Stakeholder rebates	(142)	
Opex memorandum income recognised in CP4	168	
Other	(19)	
		(408)
Turnover per the statutory accounts for year ended 31 March 2014		6,333

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2014

In £m 2013/14 prices unless stated

	£m	£m
Regulatory debt at 31 March 2014 (Statement 4)		32,300
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	516	
Foreign exchange differences	172	
		688
Net debt per the statutory accounts at 31 March 2014		32,988

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2014

In £m 2013/14 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2014 (Statement 1)		6,663
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	236	
Reactive maintenance	(196)	
Capitalised interest	144	
Investment property schemes	(15)	
Other	18	
		187
Capital expenditure per the statutory accounts for the year ended 31 March 2014		6,850

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2014

In £m 2013/14 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2014 (Statement 1)		1,428
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(144)	
Net finance costs relating to defined pension schemes assets and liabilities	54	
Investment revenue disclosed separately in statutory accounts	20	
		(70)
Interest expense per the statutory accounts for the year ended 31 March 2014		1,358